PMC COMMERCIAL TRUST /TX

FORM 10-K
(Annual Report)

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Industry	Real Estate Operations
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2002

☐ 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: 1-13610

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

Texas	**75-6446078**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
18111 Preston Road, Suite 600, Dallas, TX 75252	**(972) 349-3200**
(Address of principal executive offices)	(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:
Common Shares of beneficial interest, $.01 par value

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. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ☒ NO ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Shares of Beneficial Interest on June 28, 2002 as reported on the American Stock Exchange, was approximately $86 million. Common Shares of Beneficial Interest held by each officer and trust manager and by each person who owns 10% or more of the outstanding Common Shares of Beneficial Interest have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 21, 2003, Registrant had outstanding 6,446,291 Common Shares of Beneficial Interest.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders are incorporated by reference into Part III.

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PMC COMMERCIAL TRUST

Form 10-K
For the Year Ended December 31, 2002

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PART I

Item 1. BUSINESS

INTRODUCTION

PMC Commercial Trust ("PMC Commercial" and together with its wholly-owned subsidiaries, the "Company", "our" or "we") is a real estate investment trust ("REIT") that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business. In addition, our investments include the ownership of commercial properties in the hospitality industry. Our loans receivable are primarily to borrowers in the hospitality industry. We also originate loans for commercial real estate primarily in the service, retail, multi-family and manufacturing industries.

We generate revenue from the yield earned on our investments, rental income from property ownership and other fee income from our lending activities.

We seek to maximize shareholder value through long-term growth in dividends paid to our shareholders. As a REIT, we must distribute at least 90% of our REIT taxable income to shareholders. See "Tax Status." We pay dividends from the funds generated from operations, commonly referred to as "FFO." Our ability to maintain or increase our FFO is dependent on many factors. We describe some of the more critical factors under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Funds From Operations."

In order to fund new loans or real estate investments, we need to issue new equity, borrow funds or sell loans. Since 1996, our primary source of funds has been structured loan transactions. See "Structured Loan Transactions."

Our investments are managed pursuant to investment management agreements with PMC Advisers, Ltd. and its subsidiary (together, "PMC Advisers" or the "Investment Manager"), indirect wholly-owned subsidiaries of PMC Capital, Inc. ("PMC Capital"), our affiliate. See "Investment Management." We operate from the headquarters of the Investment Manager in Dallas, Texas, and through its loan production offices in Georgia, Arizona and Missouri.

As of December 31, 2002 and 2001, our total assets were approximately $149.7 million and $156.3 million, respectively. During the years ended December 31, 2002 and 2001, our total revenues were approximately $16.0 million and $16.4 million, respectively and our net income was approximately $9.9 million and $11.4 million, respectively.

We operate in two reportable segments: the lending division, which originates loans receivable to small businesses primarily in the hospitality industry and (ii) the property division which owns hotel properties. See detailed financial information regarding our segments in "Item 8. Consolidated Financial Statements and Supplementary Data."

LENDING ACTIVITIES

– Overview

Our net loans receivable were $72.0 million and $78.5 million at December 31, 2002 and 2001, respectively. As of December 31, 2002, we had $42.1 million (58%) of variable-rate loans receivable and $29.9 million (42%) of fixed-rate loans receivable and the weighted average interest rate on our loans receivable was 7.5%.

Our lending program is generally concentrated on potential borrowers who meet our underwriting criteria and who (i) require funds in excess of $1.3 million or (ii) exceed the net worth, asset, income, number of employees or other limitations applicable to borrowers under lending programs administered by the Small Business Administration (the "SBA"). Pursuant to the terms of our loan origination agreement with the Investment Manager, smaller loan opportunities are first presented to PMC Capital. In addition to first liens on real estate of the related business, our loans receivable are generally personally guaranteed by the principals of the entities obligated on the loans receivable.

Our loan origination opportunities are provided to us by our Investment Manager who identifies these opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, correspondence with local chambers of commerce, direct mailings, advertisements in trade publications and other marketing methods. In addition, the Investment Manager has generated a significant percentage of loans through referrals from lawyers, accountants, real estate and loan brokers and existing borrowers. In some instances, we may make payments to non-affiliated individuals who assist in generating loan applications, with such payments generally not exceeding 1% of the principal amount of the originated loan.

– Limited Service Hospitality Industry

Our loans in the hospitality industry are generally collateralized by first liens on limited service hospitality properties and are generally made to owner-operated facilities operating under national franchises. We believe that franchise operations offer attractive lending opportunities because such businesses generally employ proven business concepts, have national reservation systems, have consistent product quality, are screened and monitored by franchisors and generally have a higher rate of success when compared to other independently operated hospitality businesses.

Reductions in business and discretionary travel have caused a moderation in demand for hotel rooms and a slowdown in construction of hospitality properties (including limited service hospitality properties). However, the limited service segment of the hospitality industry has been less impacted and has continued to outperform the luxury and upscale sectors which experienced the weakest performance. Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing our loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease.

– Loan Originations and Underwriting

The underwriting criteria we apply to evaluate prospective borrowers generally requires the borrowers to (i) provide first-lien mortgages on real estate having an appraised value or cost, whichever is lower, in an amount such that the loan-to-value ratio is not greater than 70% unless credit enhancements such as additional collateral or third party guarantees are obtained, (ii) provide proven management capabilities, (iii) meet historical or projected debt coverage tests determined on a case-by-case basis, and (iv) have principals with satisfactory credit histories and provide personal guarantees, as applicable. We evaluate a number of factors to determine the credit worthiness of the prospective borrower and the amount of required debt coverage for the borrower, including:

- The components and value of the borrower’s collateral (for example, real estate, equipment or marketable securities);
- The ease with which the collateral can be liquidated;
- The industry and competitive environment in which the borrower operates;
- The financial strength of the guarantors;
- The existence of any secondary repayment sources; and
- The existence of a franchise relationship.

Our variable interest rate loans receivable generally require payments of principal and interest, reset on a quarterly basis to amortize the principal over ten to 20 years. Our fixed interest rate loans receivable generally require level payments of principal and interest calculated to amortize the principal over ten to 20 years.

Upon receipt of a completed loan application, the Investment Manager’s credit department conducts: (i) a detailed analysis of the loan, which typically includes an appraisal and a valuation by the credit department of the property that will collateralize the loan to assure compliance with loan-to-value percentages, (ii) a site inspection for real estate collateralized loans, (iii) a review of the borrower’s business experience, (iv) a review of the borrower’s credit history, and (v) an analysis of the borrower’s debt-service-coverage and debt-to-equity ratios. All appraisals must be performed by an approved licensed third party appraiser and based on the market value, replacement cost and cash flow value approaches. The Investment Manager generally utilizes nationwide independent appraisal firms and seeks local market economic information to the extent available.

Our typical loan is distinguished from those of some of our competitors by the following characteristics:

- *Substantial down payments are required* . We usually require an initial down payment of not less than 20% of the value of the property which is collateral for the loan at the time of such loan. Our experience has shown that the likelihood of full repayment of a loan increases if the owner/operator is required to make an initial and substantial financial commitment to the property which is collateral for the loan.
- *"Cash outs" are typically not permitted* . Generally, we will not make a loan in an amount greater than either the cost of the property which is collateral for the loan or the current appraised value of the property which is collateral for the loan. For example, a hotel property may have been originally constructed for a cost of $2,000,000, with the owner/operator borrowing $1,600,000 of that amount. At the time of the borrower's loan refinancing request, the property securing the loan is appraised at $4,000,000. Some of our competitors might loan from 70% to 90% or more of the new appraised value of the property and permit the owner/operator to receive a cash distribution from the proceeds. Generally, we would not permit this type of "cash-out" distribution.
- *The obligor is personally liable for the loan* . We generally require the principals of the borrower to guarantee the loan.

– Loan Activity

The following table details our loan activity for the years indicated:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
			(In thousands)		
Loans receivable, net — beginning of year	$ 78,486	$ 65,645	$115,265	$119,712	$109,132
Loans originated	32,776	51,683	22,508	17,478	42,968
Principal collections (1)	(11,637)	(4,965)	(15,135)	(19,650)	(28,519)
Repayments of SBA 504 program loans	(631)	(970)	(973)	(2,542)	(3,607)
Loan transferred to AAL (2)	—	—	(1,181)	—	—
Loans sold (3)	(27,286)	(32,662)	(55,675)	—	—
Other adjustments (4)	284	(245)	836	267	(262)
Loans receivable, net — end of year	$ 71,992	$ 78,486	$ 65,645	$115,265	$119,712

(1) Includes scheduled payments and prepayments.

(2) A loan receivable was transferred to asset acquired in liquidation ("AAL").

(3) We sold loans receivable as part of structured loan sale transactions.

(4) Includes the change in the loan loss reserve and the change in deferred commitment fees.

– Quarterly Loan Originations

The following table is a breakdown of loans originated on a quarterly basis during the years indicated:

	2002	2001	2000	1999	1998
			(In thousands)		
First Quarter	$ 6,346	$ 9,761	$ 301	$ 7,061	$ 9,437
Second Quarter	6,506	22,567	3,924	3,576	16,271
Third Quarter	10,044	10,097	7,340	3,808	8,417
Fourth Quarter	9,880	9,258	10,943	3,033	8,843
Total	$32,776	$51,683	$22,508	$17,478	$42,968

– Loan Portfolio Statistics

Information on our loans receivable, loans which have been sold and on which we have retained interests (the “Sold Loans”) and our loans receivable combined with our Sold Loans (the “Aggregate Portfolio”) was as follows:

	December 31, 2002			December 31, 2001		
	Aggregate Portfolio	Sold Loans	Loans Receivable (1)	Aggregate Portfolio	Sold Loans	Loans Receivable (1)
	(Dollars in thousands)					
Portfolio outstanding	$178,567	$105,751	$72,816	$162,137	$82,612	$79,525
Weighted average interest rate	8.7%	9.6%	7.5%	9.6%	9.6%	9.6%
Annualized average yield (2)(3)	10.0%	9.8%	10.3%	10.6%	10.7%	10.5%
Weighted average contractual maturity (in years)	15.4	16.2	14.2	14.7	16.5	12.7
Provision for loan losses (3)	$ 65	$ —	$ 65	$ 200	$ —	$ 200
Loan loss reserves	$ 365	$ —	$ 365	$ 300	$ —	$ 300
Delinquent and impaired loans (4)	$ 1,756	$ —	$ 1,756	$ 1,370	$ —	$ 1,370
Lodging industry concentration %	94.8%	93.4%	99.7%	94.3%	97.9%	90.6%
Texas concentration % (5)	23.0%	20.7%	26.5%	22.7%	21.7%	23.7%

(1) *Portfolio outstanding before reserves and deferred commitment fees. Includes the principal balance remaining on underlying loans receivable in the 1998 structured loan financing transaction of $30.7 million and $39.4 million at December 31, 2002 and 2001, respectively.*

(2) *The calculation of annualized average yield divides our interest, loan fees and prepayment fees earned, less the loan loss reserve, by the average outstanding portfolio.*

(3) *For the applicable year ended.*

(4) *Includes loans receivable which are either past due greater than 60 days or the collection of the balance of principal and interest is considered impaired and a loan loss reserve has been established (“Impaired Loans”). The balance does not include the principal balance of loans which have been identified as potential problem loans for which it is expected that a full recovery of the principal balance will be received through either collection efforts or liquidation of collateral (“Special Mention Loans”).*

(5) *No other concentrations greater than 10% existed as of December 31, 2002 except for a concentration of 10.2% of Sold Loans in Arizona.*

– Franchise Schedule

The following table is a breakdown of franchise affiliation by the principal balance outstanding on our Aggregate Portfolio and our loans receivable:

	At December 31, 2002					
	Aggregate Portfolio			Loans Receivable		
	(Dollars in thousands)					
Franchise	Number of Properties	Principal Outstanding	Percentage of Aggregate Portfolio	Number of Properties	Principal Outstanding	Percentage of Loans Receivable
Comfort Inn/Suites	17	$ 28,845	16.2%	7	$10,010	13.8%
Holiday Inn/Express	18	24,768	13.9%	8	10,823	14.9%
Days Inn	14	20,143	11.3%	3	1,723	2.4%
Ramada Inn	12	17,953	10.1%	8	12,241	16.8%
Best Western	11	16,525	9.3%	7	10,084	13.8%
Quality Inn	7	10,969	6.2%	2	2,578	3.5%
Sheraton Four Points	2	6,113	3.4%	2	6,113	8.4%
Econolodge	5	4,436	2.5%	2	1,924	2.6%
Super 8	4	4,319	2.4%	3	3,050	4.2%
Travelodge	3	4,090	2.3%	1	1,353	1.9%
Amerihost Inn	2	4,061	2.3%	2	4,061	5.6%
Country Hearth Inn	3	3,943	2.2%	—	—	0.0%
Howard Johnson	3	3,481	1.9%	1	640	0.9%
Sleep Inn	2	3,281	1.8%	1	1,233	1.7%
Country Inn & Suites	1	2,898	1.6%	—	—	—
Springhill Suites (Marriott)	1	2,748	1.5%	—	—	—
Hampton Inn	3	2,649	1.5%	2	1,444	2.0%
Microtel Inn	2	2,514	1.4%	1	1,164	1.6%
Park Inn & Suites	1	1,696	0.9%	1	1,696	2.3%
Budgetel	1	1,336	0.7%	—	—	—
Fairfield Inn (Marriott)	1	1,264	0.7%	1	1,264	1.7%
Shoney's Inn	1	1,196	0.7%	1	1,196	1.6%
	114	169,228	94.8%	53	72,597	99.7%
Independent hospitality properties	4	2,403	1.3%	1	219	0.3%
Commercial real estate	5	6,936	3.9%	—	—	—
Total	123	$178,567	100.0%	54	$72,816	100.0%

SBA Section 504 Program

We participate as a private lender in the SBA 504 Program. Participation in the SBA 504 Program offers us an opportunity to enhance the collateral status of loans receivable by allowing us to originate loans with lower loan-to-value ratios. The SBA 504 Program assists small businesses in obtaining subordinated, long-term financing by guaranteeing debentures available through certified development companies for the purpose of acquiring land, building, machinery and equipment and for modernizing, renovating or restoring existing facilities and sites. A typical finance structure for an SBA 504 Program project would include a first mortgage covering 50% of the project cost from a private lender, a second mortgage obtained through the SBA 504 Program covering up to 40% of the project cost and a contribution of at least 10% of the project cost by the principals of the small businesses being assisted. We typically require at least 20% of the equity in a project to be contributed by the principals of the borrower. The SBA does not guarantee the first mortgage. Although the total sizes of projects utilizing the SBA 504 Program guarantees are unlimited, the maximum amount of subordinated debt in any individual project generally is $750,000 (or $1 million for certain projects). Typical project costs range in size from $500,000 to $3 million.

PROPERTY OWNERSHIP

At December 31, 2002, we owned 22 limited service hospitality properties (our “Hotel Properties”) that we purchased in 1998 and 1999 through a sale/leaseback agreement with Arlington Hospitality, Inc. (“Arlington”). Arlington is the operator of our properties through a master lease agreement that provides for base rent (currently $5.5 million per year) and percentage rent of 4% of the gross room revenues generated by the Hotel Properties. The lease agreement runs through June 2008 with two renewal options of five years each and a third option for two years. The first renewal is either at our or Arlington’s option. The second five year renewal and the two year renewal are solely at Arlington’s option. Each renewal requires extension of all of the then owned Hotel Properties. The base rent is adjusted to increase each year based on the consumer price index up to a maximum increase of 2% per year. Arlington operates our Hotel Properties as “Amerihost Inns” which is a brand name franchised by Cendant Corporation, the largest franchisor of leasehold properties.

During the three years ended December 31, 2002, we sold eight properties for $21.3 million resulting in net gains totaling $2.3 million. Five of these property sales were completed as a result of an agreement we entered into with Arlington to sell up to eight properties to Arlington prior to June 2004. To the extent the remaining purchases by Arlington are not completed in the agreed upon time frame, the lease agreement provides for rent increases on our remaining Hotel Properties.

STRUCTURED LOAN TRANSACTIONS

– General

Structured loan sale transactions are our primary method of obtaining funds for new loan originations. In a structured loan sale transaction, we contribute loans receivable to a special purpose entity (“SPE”) in exchange for an ownership interest in that entity. The SPE issues notes payable (usually through a private placement) to third parties and then distributes a portion of the notes payable proceeds to us. The notes payable are collateralized solely by the assets of the SPE. The terms of the notes payable issued by the SPEs provide that the owners of these SPEs are not liable for any payment on the notes. Accordingly, if the SPEs fail to pay the principal or interest due on the notes, the sole recourse of the holders of the notes is against the assets of the SPEs. We have no obligation to pay the notes, nor do the holders of the notes have any recourse against PMC Commercial’s assets.

We account for structured loan sale transactions as sales of our loans receivable and the SPE meets the definition of a qualifying SPE; as a result, neither the loans receivable contributed to the SPE nor the notes payable issued by the SPE are included in our consolidated financial statements. When a structured loan sale transaction is completed: (1) our ownership interests in the SPEs are accounted for as retained interests in transferred assets (“Retained Interests”) and are recorded at the present value of the estimated future cash flows to be received from the SPE and (2) the difference between (i) the carrying value of the loans receivable sold and (ii) the relative fair value of the sum of (a) the cash received and (b) the present value of estimated future cash flows from the Retained Interests, constitutes the gain or loss on sale. Gains or losses on these sales may represent a material portion of our net income in the period in which the transactions occur.

A structured loan financing is similar to a structured loan sale, with the exception that the transaction is not treated as a sale for financial reporting purposes. Therefore, the loans receivable contributed to the SPE and the notes payable issued by the SPE are included in our consolidated financial statements. Even though the loans receivable and the notes payable are included on our balance sheets from the structured loan financing transaction completed in 1998, PMC Commercial has no obligation to pay the notes, nor do the holders of the notes have any recourse against PMC Commercial’s assets.

Since we rely on structured loan transactions as our primary source of operating capital to fund new loan originations, any adverse changes in our ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product we generate, could have a detrimental effect on our ability to generate funds to originate loans.

Problems in the asset-backed securities market that could affect our ability to complete a structured loan transaction on a timely basis or cause us to sell our loans receivable on less favorable terms include, but are not limited to, the following:

- As a result of certain economic conditions, investors in the type of asset-backed securities that we place may widen the "spreads" they require in order to purchase asset-backed securities;
- The deterioration in the performance of either our loan portfolio or the portfolio of PMC Capital may deter potential investors from purchasing our asset-backed securities;
- The deterioration in the operations of the limited service sector of the hospitality industry which may deter potential investors from purchasing our asset-backed securities or lower the available rating from the rating agencies;
- A reduction in the performance of the loans receivable of our prior transactions or of similar transactions (for example, higher than expected loan losses or delinquencies) may deter potential investors from purchasing our asset-backed securities; and
- A change in the underlying criteria utilized by the rating agencies may cause transactions to receive lower ratings than previously issued thereby increasing the cost of capital and decreasing the "spread" on our transaction.

Significant changes in any of these criteria may result in us temporarily suspending our structured loan sale program and we may seek other sources of financing. See "Risk Factors — The Market for Structured Loan Transactions May Change."

Our Retained Interests consist of (i) the retention of a portion of each of the sold loans (the "required overcollateralization"), (ii) required cash balances owned by the SPE (the "reserve fund") and (iii) future excess funds to be generated by the SPE after payment of all obligations of the SPE (the "interest-only strip receivable"). The value of our Retained Interests is determined based on the present value of estimated future cash flows that we will receive from the SPEs. The estimated future cash flows are calculated based on assumptions concerning, among other things, loan losses and prepayment speeds. On a quarterly basis, we measure the fair value of, and record income relating to, the Retained Interests based upon the future anticipated cash flows discounted based on an estimate of market interest rates for investments of this type. Any appreciation of the Retained Interests is included in the accompanying balance sheet in beneficiaries' equity while any depreciation of our Retained Interests is either included in the accompanying statement of income as either a realized loss (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries' equity as an unrealized loss.

We retain a portion of the default and prepayment risk associated with the underlying transferred loans receivable of our Retained Interests. Actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing our Retained Interests will vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of our Retained Interests and related cash flows. See "Risk Factors — There is Volatility in the Valuation of Our Retained Interests." We regularly measure our loan loss, prepayment and other assumptions against the actual performance of the loans receivable sold. Although we believe that assumptions made as to the future cash flows are reasonable, actual rates of loss or prepayments will vary from those assumed and the assumptions may be revised based upon changes in facts or circumstances.

In connection with our structured loan sale transactions, joint ventures have been formed as SPEs to hold the loans receivable sold and issue notes payable collateralized by the loans receivable. As of December 31, 2002, our SPEs consisted of:

- PMC Joint Venture, L.P. 2000 (the "2000 Joint Venture") and its related general partner;
- PMC Joint Venture, L.P. 2001 (the "2001 Joint Venture") and its related general partner; and,
- PMC Joint Venture, L.P. 2002-1 (the "2002 Joint Venture," and together with the 2000 Joint Venture and the 2001 Joint Venture, the "Joint Ventures") and its related general partner.

PMC Commercial owns approximately 66%, 39% and 39%, respectively, of the 2000 Joint Venture, the 2001 Joint Venture and the 2002 Joint Venture with the remainder owned by PMC Capital. Our share of the cash flows from the Joint Ventures is allocated based on the cash flows from the underlying loans receivable contributed by us to the respective Joint Venture less allocated costs based on the remaining principal on the underlying loans receivable contributed by us divided by all loans receivable held by the respective Joint Venture.

Information relating to our structured loan sale transactions is as follows:

	As of December 31, 2002		
	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture
	(Dollars in thousands)		
Principal amount of loans sold:			
At time of sale	$55,675	$32,662	$27,286
At December 31, 2002	$49,975	$28,951	$26,825
Structured notes:			
At time of sale	$49,550	$30,063	$24,557
At December 31, 2002	$44,572	$26,384	$24,135
Weighted average interest rate on loans:			
At time of sale	9.63%	9.62%	9.23%
At December 31, 2002	9.64%	9.60%	9.23%
Interest rate on the SPE notes payable (fixed)	7.28%	6.36%	6.67%
Required initial overcollateralization (1)	11.0%	8.0%	10.0%
Required overcollateralization (2)	11.1%	9.0%	10.2%
Rating of structured notes (3)	“Aaa”	“Aaa”	“Aaa”
Cash reserve requirement	6.0%	6.0%	6.0%

(1) The required initial overcollateralization percentage represents the portion of our sold loans receivable retained by the SPEs whose value is included in Retained Interests.

(2) The required overcollateralization percentage is larger than the initial required overcollateralization percentage since all principal payments received on the underlying loans receivable are paid to the noteholders.

(3) Structured notes issued by the SPEs were rated by Moody’s Investors Service, Inc.

– Structured Loan Sale Transaction Completed During 2002

On April 12, 2002, we completed a structured loan sale transaction of a pool of primarily fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $27.3 million and $43.2 million, respectively, to the 2002 Joint Venture. The 2002 Joint Venture issued, through a private placement, approximately $63.5 million of its 2002 Loan-Backed Fixed Rate Notes (the “2002 L.P. Notes”) of which approximately $24.6 million (the “2002 PMCT L.P. Notes”) was allocated to us based on our ownership percentage in the 2002 Joint Venture. The 2002 L.P. Notes, issued at par, have a stated maturity in 2023, bear interest at 6.67% and are collateralized by the loans receivable contributed by us and PMC Capital to the 2002 Joint Venture. We accounted for this transaction as a sale, recorded a gain of $562,000 and recorded our Retained Interests at an initial amount of $5,293,000 during 2002.

The net proceeds from the issuance of the 2002 PMCT L.P. Notes (approximately $24.0 million) were distributed to us. These proceeds are net of our issuance costs and prior to funding the required reserve balance. At inception of the 2002 Joint Venture and at December 31, 2002, we owned a 39% limited partnership interest based on our share of the capital.

– Structured Loan Sale Transaction Completed During 2001

On June 27, 2001, we completed a structured loan sale transaction of a pool of fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $32.7 million and $49.2 million, respectively, to the 2001 Joint Venture. The 2001 Joint Venture issued, through a private placement, approximately $75.4 million of its 2001 Loan-Backed Fixed Rate Notes (the “2001 L.P. Notes”) of which approximately $30.1 million (the “2001 PMCT L.P. Notes”) was allocated to us based on our ownership percentage in the 2001 Joint Venture. The 2001 L.P. Notes, issued at par, have a stated maturity in 2021, bear interest at 6.36% and are collateralized by the loans receivable contributed by us and PMC Capital to the 2001 Joint Venture. We accounted for this transaction as a sale, recorded a gain of $1,433,000 and recorded our Retained Interests at an initial amount of $5,871,000 during 2001.

The net proceeds from the issuance of the 2001 PMCT L.P. Notes (approximately $29.5 million) were distributed to us. These proceeds are net of our issuance costs and prior to funding the required reserve balance. At inception of the 2001 Joint Venture, we owned a 40% limited partnership interest based on our share of the capital. At December 31, 2002, we owned a 39% limited partnership interest in the 2001 Joint Venture.

– Structured Loan Sale Transaction Completed During 2000

On December 18, 2000, we completed our first structured loan sale transaction with PMC Capital. We completed the structured loan sale of a pool of fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $55.7 million and $28.0 million, respectively, to the 2000 Joint Venture. The 2000 Joint Venture issued, through a private placement, approximately $74.5 million of its 2000 Loan-Backed Fixed Rate Notes (the “2000 L.P. Notes”) of which approximately $49.6 million (the “2000 PMCT L.P. Notes”) was allocated to PMC Commercial based on our ownership percentage in the 2000 Joint Venture. The 2000 L.P. Notes, issued at par, have a stated maturity in 2024, bear interest at 7.28% and are collateralized by the loans receivable contributed by us and PMC Capital to the 2000 Joint Venture. We accounted for this transaction as a sale, recorded a gain of $1,117,000 and recorded our Retained Interests at an initial amount of $11,174,000 during 2000.

The net proceeds from the issuance of the 2000 PMCT L.P. Notes (approximately $49.2 million) were distributed to us. These proceeds are net of our issuance costs and prior to funding the required reserve balance. At inception of the 2000 Joint Venture and at December 31, 2002, we owned a 66% limited partnership interest based on our share of the capital.

– Joint Structured Loan Sale Transactions – General

The terms of the 2002 L.P. Notes, the 2001 L.P. Notes and the 2000 L.P. Notes (the “JV Notes”) provide that each of the partners of the respective Joint Ventures is not liable for any payments on the JV Notes. Accordingly, if the Joint Ventures fail to pay the JV Notes, the sole recourse of the holders of the JV Notes is against the assets of the respective Joint Venture. Accordingly, we have no obligation to pay the JV Notes, nor do the holders of the JV Notes have any recourse against our assets.

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance by either PMC Commercial’s or PMC Capital’s sold loans receivable (the “Underperforming Company”) is pervasive enough to cause the other company (the “Performing Company”) to not receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. If the reduction of cash flows is deemed permanent *(i.e.*, to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets they have contributed to the related structured loan sale transaction), the balance of reduction to cash flows must be paid to the Performing Company by the Underperforming Company. At December 31, 2002, the maximum potential amount of future payments to PMC Capital (undiscounted and without consideration of any recoveries from the underlying loans receivable) we could be required to make under these cross indemnification agreements was approximately $36.3 million and the discounted amount was $25.2 million which represents the estimated fair value of the Retained Interests reflected on PMC Capital’s consolidated balance sheet for the Joint Ventures. All of our loans are collateralized; however, the maximum potential amount of future payments we could be required to make under these cross indemnification agreements has not considered any proceeds from the liquidation of collateral underlying these loans. Upon completion of a joint securitization and on each subsequent quarterly reporting date, management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by us will cause any permanent cash flow reductions to PMC Capital nor does it appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reduction to us. Accordingly, we believe that the fair value of these cross indemnification agreements at inception of the Joint Ventures and as of December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of our sold loans receivable significantly deteriorates, it could be necessary for us to perform under these cross indemnification agreements.

When our structured loan sale transactions were completed, the transaction documents that the SPE entered into contained provisions (the “Credit Enhancement Provisions”) that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transaction. Generally, the Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, provisions of the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed to us, which would delay or reduce our distribution.

INVESTMENT MANAGEMENT

Our loans receivable are managed by PMC Advisers (either directly or through its subsidiary) pursuant to an Investment Management Agreement (the “IMA”) and our properties, including the Hotel Properties, are supervised by PMC Advisers pursuant to a separate agreement (the “Lease Supervision Agreement,” and together with the IMA, the “Advisory Agreements”). Both agreements are renewable on an annual basis.

During 2002 and 2001, pursuant to the IMA we were charged fees between 0.40% and 1.55% annually, based upon the average principal outstanding of our loans receivable. In addition, PMC Advisers earns fees for its assistance with the issuance of our debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by us pursuant to the public offering or private placement of our common shares, and (ii) 50% of any issuance or placement fees incurred by us pursuant to the issuance of our debt securities or preferred shares of beneficial interest. In the event the IMA agreement with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by us in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average invested assets) multiplied by the average invested assets at the date of termination.

The Lease Supervision Agreement provides for an annual fee of 0.70% of the original cost of the properties to be paid to PMC Advisers for providing services relating to leases on our properties. In addition, the Lease Supervision Agreement provides for a fee relating to any acquisition of properties of 0.75% of the acquisition cost, a fee of $10,000 upon the sale of each Hotel Property and an annual loan origination fee equal to five basis points of loans funded for the first $20 million in loans and 2.5 basis points thereafter. In the event the Lease Supervision Agreement with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Advisers would be entitled to receive the Lease Supervision Fee for a period of five years from the termination date. Pursuant to the Advisory Agreements, we incurred an aggregate of approximately $2.3 million, $2.3 million and $2.2 million in management fees during 2002, 2001 and 2000, respectively.

PMC Capital is primarily engaged in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. PMC Commercial provides loans to persons or entities whose borrowing needs and/or strength and stability exceed the limitations set for SBA approved loan programs. As a result, we generally pursue different prospective borrowers than PMC Capital. In order to further mitigate the potential for conflicts of interest, we have entered into a loan origination agreement (the “Loan Origination Agreement”) with PMC Capital and PMC Advisers. Pursuant to the Loan Origination Agreement, all loans that meet our underwriting criteria are presented to us first for funding. If we do not have available uncommitted funds, origination opportunities presented to us may be originated by PMC Capital or it subsidiaries. Many of our existing and potential borrowers have other projects that are currently financed by PMC Capital.

TAX STATUS

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, we generally are not subject to Federal income tax (including any applicable alternative minimum tax) to the extent that we distribute at least 90% of our REIT taxable income to shareholders. We may, however, be subject to certain Federal excise taxes and state and local taxes on our income and property. REITs are subject to a number of organizational and operational requirements under the Code.

RISK FACTORS

Management has identified the following important factors that could cause actual results to differ materially from those reflected in forward-looking statements or from our historical results. These factors, which are not all-inclusive, could have a material impact on our asset valuations, results of operations or financial condition. In addition, these factors could impair our ability to maintain dividend distributions at current levels.

– We Have a Concentration of Investments in the Hospitality Industry and Texas

Substantially all of our revenue is generated from lending to, and leasing of, hospitality properties. Our loans receivable were 100% concentrated in the hospitality industry at December 31, 2002. In addition, approximately 93% of the loans receivable underlying our Retained Interests were concentrated in the hospitality industry as of December 31, 2002. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on our financial condition and results of operations. For example, the events of September 11th caused significant strain on travel related businesses in the United States. Military actions against terrorists, new terrorist attacks or other political events, including the impact of war, could cause additional strain on the hospitality industry and negatively impact our financial condition and results of operations.

At December 31, 2002, approximately 27% of our loans receivable were collateralized by properties in Texas. No other state had a concentration of 10% or greater of our loans receivable at December 31, 2002. Approximately 21% of the loans receivable underlying our Retained Interests are concentrated in Texas. A decline in economic conditions in Texas could have a material adverse effect on our financial condition and results of operations.

– We Are Dependent on Third Party Management of our Hotel Properties

As a REIT, we cannot operate our Hotel Properties. As a result, we are dependent upon Arlington to operate and manage our Hotel Properties. The operating results of our Hotel Properties are subject to a variety of risks which could affect their ability to generate sufficient cash flow to support the payment obligations under the master lease agreement. In the event Arlington defaults on the master lease agreement, there can be no assurance that we would be able to find a new operator for our Hotel Properties, negotiate to receive the same amount of lease income or that we would be able to collect on Arlington’s guarantee. In addition, in the event Arlington defaults, we may incur costs including holding costs, legal fees and costs to re-franchise the properties.

– The Market for Structured Loan Transactions May Change

We will continue to need capital to fund loans. Our ability to continue to grow depends, to a large extent, on our ability to complete structured loan transactions. In certain economic markets the availability of funds may be diminished or the “spread” charged for funds may increase causing us to delay a structured loan transaction. Terrorist attacks or political events, including the impact of war, could impact the availability and cost of our capital.

It is anticipated that our working capital needs for 2003 will require us to complete a variable-rate structured loan sale transaction with PMC Capital during the second quarter of 2003. Due to the current economic and interest environments, we may experience difficulties in selling our variable-rate loans receivable at an acceptable “spread.” Certain economic conditions may cause investors in the type of asset-backed securities that we place to widen the “spreads” they require in order to purchase asset-backed securities.

A reduction in the availability of this source of funds could have a material adverse effect on our financial condition and results of operations since working capital may not be available to fund our current commitments, future loan originations or to acquire real estate.

– We Are Subject to Prepayment Risk

Prepayments generally increase during times of declining interest rates. The proceeds from the prepayments we receive are invested initially in temporary investments and have generally been re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. The lower interest rates we receive on these new loans receivable have had an adverse effect on our results of operations and depending upon the rate of future prepayments may further impact our results of operations. The impact of the lower lending rates on our net income may be partially offset by the reduced cost of our variable-rate borrowings in a lower interest rate environment. In addition, when loans receivable are repaid prior to their maturity, we often receive prepayment fees. Prepayment fees result in one-time increases in our income.

Prepayments of loans receivable may affect our “spread” on the pool of loans receivable sold in our structured loan sale transactions. Prepayments of loans receivable with higher interest rates negatively impact the value of our Retained Interests to a greater extent than prepayments of loans receivable with lower interest rates. Prepayments in excess of assumptions will cause a decline in the value of our Retained Interests primarily relating to the excess funds (our interest-only strip receivable) expected from our structured loan sale transactions. For example, if a $1.0 million loan with an interest rate of 10% prepays and the “all-in cost” of that Joint Venture’s structured notes was 7%, we would lose the 3% spread we had expected to receive on that loan in future periods. Our “all-in costs” include interest, servicing, trustee and other ongoing costs. The “spread” that is lost may be offset in part or in whole by the prepayment fee that we collect.

– We Are Subject to Interest Rate Risk

The net income of our lending operations is materially dependent upon the “spread” between the rate at which we borrow funds (historically either short-term at variable rates or long-term at fixed rates) and the rate at which we loan these funds. During periods of changing interest rates, interest rate mismatches could negatively impact our net income, dividend yield, and the market price of our common shares.

As a result of our dependence on variable-rate loans (we are currently originating primarily variable-rate loans and all of our commitments are for variable-rate loans), our interest income has been, and will continue to be, reduced. In addition, to the extent that rates remain at these historically low levels, or LIBOR decreases from current levels, interest income on our currently outstanding loans receivable will decline.

Changes in interest rates on our fixed-rate loans receivable do not have an immediate impact on interest income. Our interest rate risk on our fixed-rate loans receivable is primarily due to loan prepayments and maturities. The average maturity of our loan portfolio is less than their average contractual terms because of prepayments. The average life of mortgage loans receivable tends to increase when the current mortgage rates are substantially higher than rates on existing mortgage loans receivable and, conversely, decrease when the current mortgage rates are substantially lower than rates on existing mortgage loans receivable (due to refinancings of fixed-rate loans receivable at lower rates).

– The Economic and Competitive Environments May Change

Several factors may impact the ability of our borrowers to meet their contractual payment obligations or the Hotel Properties to generate sufficient cash flow to support their monthly lease payments. During economic downturns, there may be reductions in business travel and consumers generally take fewer vacations. Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing our loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease. These factors may cause a reduction in revenue per available room (“RevPar”). If RevPAR for the limited service sector of the hospitality industry were to experience significant sustained reductions, the ability of our borrowers to meet their obligations could be impaired and loan losses could increase and the ability of the operator of our properties, Arlington, to meet its obligations could be impaired.

Economic recessions or downturns could impair our borrowers and harm our operating results. Many of the companies in which we have made or will make loans may be susceptible to economic slowdowns or recessions. Terrorism, bankruptcies or other political events, including the impact of war, could affect our borrowers. Our nonperforming assets are likely to increase during these periods. These conditions could lead to losses in our portfolio and a decrease in our interest income, net income and assets.

Our primary competition for lending opportunities has come from banks, financial institutions and other lending companies. Many of these competitors have greater financial and larger managerial resources than us and are able to provide services we are not able to provide (*i.e.*, depository services). We believe we compete effectively with such entities on the basis of the variety of our lending programs offered, interest rates, our long-term maturities and payment schedules, the quality of our service, our reputation as a lender, timely credit analysis and greater responsiveness to renewal and refinancing requests from borrowers. In addition, the variety and flexibility of our lending programs enhances our ability to react to current market conditions.

– There is Volatility in the Valuation of Our Retained Interests

Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of our Retained Interests and the limited number of buyers for such assets, no readily ascertainable market exists for our Retained Interests. Therefore, our determination of the fair value may vary significantly from what a willing buyer would pay for these assets. If we were forced to immediately liquidate some or all of our Retained Interests, the proceeds of such liquidation may be significantly less than the current value of such Retained Interests.

The value of our Retained Interests is determined based on assumptions concerning, among other things, anticipated defaults, prepayment speeds and discount rates. We retain a portion of the default and prepayment risk associated with the underlying transferred loans receivable of our Retained Interests. As more fully described below, actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing the Retained Interests may vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of our Retained Interests and the related estimated cash flows. The discount rates utilized are determined for each of the assets comprising the Retained Interests based upon an estimate of the inherent risks associated with each asset.

The following is a sensitivity analysis of our Retained Interests as of December 31, 2002 to highlight the volatility that results when prepayments, loan losses and discount rates are different than our assumptions:

Changed Assumption	Pro-Forma Value	Asset Change
	(In thousands)	
Losses increase by 50 basis points per annum (1)	$21,751	($1,781)
Losses increase by 100 basis points per annum (1)	$20,040	($3,492)
Rate of prepayment increases by 5% per annum (2)	$22,714	($ 818)
Rate of prepayment increases by 10% per annum (2)	$22,178	($1,354)
Discount rates increase by 100 basis points	$22,481	($1,051)
Discount rates increase by 200 basis points	$21,500	($2,032)

(1) If we experience significant losses (i.e., in excess of anticipated losses), the effect on our Retained Interests would first reduce the value of the interest-only strip receivables. To the extent the interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of our reserve funds and then the value of our required overcollateralization.

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

These sensitivities are hypothetical and should be used with caution. Pro-forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of our Retained Interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

Changes in any of these assumptions or actual results which deviate from assumptions affect the value of our Retained Interests, possibly to a material degree. There can be no assurance as to the accuracy of these estimates.

– We Are Leveraged

We have borrowed funds and intend to obtain additional funds through advances under our revolving credit facility and through the issuance of mortgage notes payable. As a result, we use leverage to fund our capital needs. Private lenders have fixed dollar claims on our assets superior to the claims of the holders of our common shares. Leverage magnifies the effect that rising or falling interest rates have on our earnings. Any increase in the interest rate earned by us on investments in excess of the interest rate on the funds obtained from borrowings would cause our net income and earnings per share to increase more than they would without leverage, while any decrease in the interest rate earned by us on investments would cause net income and earnings per share to decline by a greater amount than they would without leverage. Leverage is thus generally considered a speculative investment technique. In order for us to repay indebtedness on a timely basis, we may be required to dispose of assets when we would not otherwise do so and at prices which may be below the net book value of such assets. Dispositions of assets could have a material adverse effect on our financial condition and results of operations.

– There Are Significant Risks in Lending to Small Businesses

Our loans receivable consist primarily of loans to small, privately-owned companies. There is no publicly available information about these companies; therefore, we must rely on the due diligence of our Investment Manager to obtain information in connection with our investment decisions. Our borrowers may not meet net income, cash flow and other coverage tests typically imposed by bank lenders. A borrower’s ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative economic conditions. Deterioration in a borrower’s financial condition and prospects may be accompanied by deterioration in the collateral for the loan. In addition, small businesses depend on the management talents and efforts of one person or a small group of people for their success. The loss of services of one or more of these persons could have an adverse impact on the operations of the small business. Small companies are typically more vulnerable to customer preferences, market conditions and economic downturns and often need additional capital to expand or compete. These factors may have an impact on the ultimate recovery of our loans receivable to such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative.

– There is Volatility in the Valuation of our Loans Receivable

There is typically no public market or established trading market for the loans we originate. The illiquid nature of our loans receivable may adversely affect our ability to dispose of such loans receivable at times when it may be advantageous for us to liquidate such investments. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of additional loan loss reserves.

Our provision for loan losses was 0.09% (nine basis points) of our weighted average outstanding loans receivable during 2002. It may be difficult to maintain such a low loss rate on our loans receivable. To the extent one or several of our loans experience significant operating difficulties and we are forced to liquidate the loan, future losses may be substantial. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan requires judgment and consideration of the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of significant additional loan loss reserves.

– We Have an Ongoing Need for Additional Capital Since Earnings Are Required to be Paid as Dividends

We will continue to need capital to fund loans. Historically, we have sold loans receivable as part of structured loan sale transactions, borrowed from financial institutions and issued equity securities. A reduction in the availability of funds from financial institutions or the asset-backed securities market could have a material adverse effect on our financial condition and our results of operations. We must distribute at least 90% of our REIT taxable income to our shareholders to maintain our REIT status under the Code. As a result, that income will not be available to fund loan originations or acquire real estate. We expect to be able to borrow from financial institutions and sell loans receivable in the asset-backed securities market. We do not anticipate selling additional equity securities at our current market price.

– There May Be Significant Fluctuations in our Quarterly Results

Our quarterly operating results will fluctuate based on a number of factors, including, among others:

- The completion of a structured loan sale transaction in a particular period;
- Interest rate changes;
- The volume and timing of loan originations and prepayments of our loans receivable;
- The recognition of gains or losses on investments;
- The level of competition in our markets; and
- General economic conditions, especially those which affect the hospitality industry.

As a result of the above factors, quarterly results should not be relied upon as being indicative of performance in future quarters.

To the extent a structured loan sale transaction is completed, (i) our interest income on loans receivable in future periods will be reduced until the proceeds received are reinvested in new loan originations, (ii) interest expense will be reduced if we repay outstanding debt with the proceeds and (iii) we will earn income from our ownership of a Retained Interest in the loans receivable sold. Until the proceeds are fully reinvested, the net impact of a structured loan sale transaction on future operating periods should be a reduction in interest income, net of interest expense.

– The Loss of Pass-Through Tax Treatment Would Subject Us to Income Taxes

If a company meets certain diversification and distribution requirements under the Code, it can qualify as a REIT and be entitled to pass-through tax treatment. We would cease to qualify for pass-through tax treatment if we were unable to comply with these requirements. We are also subject to a 4% excise tax (and, in certain cases, corporate level income tax) if we fail to make certain distributions. Failure to qualify as a REIT would subject us to Federal income tax as if we were a corporation, resulting in a substantial reduction in both our net assets and the amount of income available for distribution to our shareholders. We anticipate that we will continue to qualify as a REIT under the Code.

– We Operate in a Highly Regulated Environment

Changes in the laws or regulations governing REITs may significantly affect our business. We are also regulated by the Securities and Exchange Commission. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations are also subject to change. Any change in the laws or regulations governing our business could have a material impact on our financial condition or our results of operations.

– We Are Subject to the Americans with Disabilities Act

The Americans with Disabilities Act of 1990 (“ADA”) requires all public accommodations and commercial facilities to meet federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the U.S. Government or an award of damages to private litigants. Although we believe that the properties that we own or finance are substantially in compliance with these requirements, a determination that the properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants. Pursuant to the master lease agreements relating to the Hotel Properties, costs and fines associated with the ADA are the responsibility of the tenant. However, a substantial expense may affect the borrowers’ or tenants’ ability to pay their obligations, and consequently, our cash flow and the amounts available for distributions to shareholders may be adversely affected. To mitigate this risk, all construction loans receivable are monitored or certified to meet ADA standards.

EMPLOYEES

We have no salaried employees. The Investment Manager provides all personnel required for our operations.

CUSTOMERS

In relation to our lending division, we are not dependent upon a single borrower, or a few borrowers, whose loss would have a material adverse effect on us. In addition, we have not loaned more than 10% of our assets to any single borrower.

Our property division is dependent upon Arlington to operate the Hotel Properties. Lease income from Arlington represents 100% of the revenue in this segment. The loss of Arlington would have a material adverse effect on us until another operator could be put into place for our Hotel Properties.

AVAILABLE INFORMATION

We file annual, quarterly and special reports and other information with the Securities and Exchange Commission (the “SEC”). All documents may be located at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or you may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. Our SEC filings are also available to the public, free of charge, at PMC Capital’s internet site *www.* pmccapital.com, as soon as reasonably practicable after the reports are filed with, or furnished to, the SEC or at the SEC’s internet site at *www.sec.gov* .

Item 2. PROPERTIES

We operate from the headquarters of the Investment Manager in Dallas, Texas, and through their loan production offices in Georgia, Arizona and Missouri.

At December 31, 2002, we owned 22 Hotel Properties (not including the limited service hospitality property we acquired through foreclosure on the real estate securing a loan receivable). The Hotel Properties are leased to a wholly-owned subsidiary of Arlington pursuant to individual property leases which are subject to the terms of a master lease agreement. Pursuant to the master lease agreement, aggregate base rent is paid to us based on the number of Hotel Properties we own. The master lease and the underlying individual property leases expire in June 2008, but each can be extended by either Arlington or us for one five-year period, and thereafter by Arlington for a five-year period and a subsequent two-year period. If fully extended, the term of the master lease would continue until September 2020. Arlington has guaranteed the payment of the rent due under the terms of the master lease agreement and the individual property leases. In addition, the master lease requires a deposit of two months base rent (approximately $900,000 at December 31, 2002). If Arlington defaults under the master lease, we have the right to, among other things, terminate the master lease. Lease income represented approximately 36% of our total revenues during 2002.

The following table describes the location, number of rooms, year built and annual base rent for 2003 relating to each of these properties:

City	State	Rooms in Hotel	Year Built	Annual Base Rent (1)
Eagles Landing	Georgia	60	1995	$ 237,180
La Grange (2)	Georgia	59	1995	216,560
Smyrna	Georgia	60	1996	226,870
Rochelle	Illinois	61	1997	247,490
Macomb	Illinois	60	1995	268,120
Sycamore	Illinois	60	1996	268,120
Plainfield	Indiana	60	1992	247,490
Mt. Pleasant	Iowa	63	1997	226,870
Storm Lake	Iowa	61	1997	216,560
Coopersville	Michigan	60	1996	247,490
Grand Rapids North	Michigan	60	1995	278,430
Grand Rapids South	Michigan	61	1997	278,430
Monroe	Michigan	63	1997	257,800
Port Huron	Michigan	61	1997	257,800
Tupelo	Mississippi	61	1997	237,180
Ashland	Ohio	62	1996	309,370
Marysville	Ohio	79	1990	329,990
Wooster East	Ohio	58	1994	206,250
Wooster North	Ohio	60	1995	206,250
Jackson	Tennessee	61	1998	257,800
McKinney	Texas	61	1997	257,800
Mosinee	Wisconsin	53	1993	175,310
		1,344		$5,455,160

(1) Annual base rent includes a CPI adjustment (2.0% increase) which was effective January 1, 2003.

(2) Represents our real estate investment held for sale at December 31, 2002.

Item 3. LEGAL PROCEEDINGS

In the normal course of business, we are subject to various proceedings and claims, the resolution of which will not, in management's opinion, have a material adverse effect on our financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders during the fourth quarter of 2002.

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PART II

Item 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Common Shares are traded on the American Stock Exchange (the "AMEX") under the symbol "PCC." The following table sets forth, for the periods indicated, the high and low sales prices as reported on the AMEX and the regular and special dividends per share declared by us for each such period.

Quarter Ended	High	Low	Regular Dividends Per Share	Special Dividends Per Share
December 31, 2002	$13.67	$11.25	$0.400	$0.020
September 30, 2002	$15.10	$12.80	$0.400	—
June 30, 2002	$15.50	$14.05	$0.400	—
March 31, 2002	$14.75	$12.85	$0.400	—
December 31, 2001	$13.98	$11.80	$0.400	—
September 30, 2001	$15.24	$11.85	$0.380	—
June 30, 2001	$14.95	$11.65	$0.375	—
March 31, 2001	$13.95	$ 9.00	$0.365	—
December 31, 2000	$10.44	$ 8.69	$0.365	—
September 30, 2000	$11.00	$ 9.25	$0.460	—
June 30, 2000	$12.00	$10.00	$0.460	—
March 31, 2000	$12.63	$ 9.38	$0.460	—

On March 21, 2003, there were approximately 500 holders of record of Common Shares and the last reported sales price of the Common Shares was $13.40.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following is a summary of our Selected Consolidated Financial Data as of and for the five years in the period ended December 31, 2002. The following data should be read in conjunction with our consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The selected financial data presented below has been derived from our consolidated financial statements.

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share information)				
Total revenues	$16,036	$16,407	$19,038	$21,261	$18,939
Total expenses	$ 7,640	$ 8,230	$11,559	$11,466	$ 7,805
Income from continuing operations	$ 8,396	$ 8,177	$ 7,479	$ 9,795	$11,134
Discontinued operations	$ 978	$ 475	$ 465	$ 469	$ 237
Gain on sale of assets	$ 562	$ 2,783	$ 1,421	$ —	$ —
Net income	$ 9,936	$11,435	$ 9,365	$10,264	$11,371
Basic weighted average common shares outstanding	6,444	6,431	6,520	6,530	6,498
Basic and diluted earnings per common share:					
Income from continuing operations and gain on sale of assets	$ 1.39	$ 1.71	$ 1.37	$ 1.50	$ 1.71
Net income	$ 1.54	$ 1.78	$ 1.44	$ 1.57	$ 1.75
Dividends declared, common	$10,440	$ 9,789	$11,367	$12,016	$11,592
Dividends per common share	$ 1.62	$ 1.52	$ 1.75	$ 1.84	$ 1.78

	At December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Loans receivable, net	$ 71,992	$ 78,486	$ 65,645	$115,265	$119,712
Real estate investments, net	$ 44,928	$ 52,718	$ 65,674	$ 70,683	$ 61,774
Real estate investments, held for sale, net	$ 1,877	$ —	$ —	$ —	$ —
Retained interests in transferred assets	$ 23,532	$ 17,766	$ 11,203	$ —	$ —
Total assets	$149,698	$156,347	$151,399	$197,237	$196,690
Notes payable and revolving credit facility	$ 48,491	$ 57,070	$ 53,235	$ 97,757	$ 95,387
Beneficiaries' equity	$ 93,929	$ 92,771	$ 89,785	$ 91,932	$ 93,437
Total liabilities and beneficiaries' equity	$149,698	$156,347	$151,399	$197,237	$196,690

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of our loans receivable and availability of funds. Such forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "believe," "anticipate," "estimate," or "continue," or the negative thereof or other variations or similar words or phrases. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties identified in this Form 10-K, including, without limitation, the risks identified under the caption "Item 1. Business — Risk Factors." Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

RECENT DEVELOPMENTS

On March 27, 2003, we entered into an Agreement and Plan of Merger with PMC Capital. Under the terms of the merger agreement, PMC Capital will be merged into PMC Commercial, with PMC Commercial continuing as the surviving entity. Each issued and outstanding share of PMC Capital common stock will be converted into 0.37 of a common share of PMC Commercial. The merger has been recommended by each company's special committee and approved by the Board of Trust Managers of PMC Commercial and the Board of Directors of PMC Capital. In addition, the boards and management of each company have entered into voting agreements pursuant to which they have agreed to vote their shares in favor of the merger and related transactions. Completion of the merger, which is expected to occur in the fourth quarter of 2003, is subject to approval by the shareholders of PMC Commercial and PMC Capital, certain governmental consents and customary closing conditions.

CURRENT OPERATING OVERVIEW

We are primarily a commercial lender that originates loans to small businesses that are principally collateralized by first liens on the real estate of the related business. We sell loans receivable through privately-placed structured loan sale transactions. Historically, we have retained residual interests in all loans receivable sold through our ownership in the related SPEs.

Our revenues and realized gains include the following:

- Interest earned on loans receivable including the effect of commitment fees collected at the inception of the loan;
- Lease payments on our Hotel Properties;
- Earnings on our Retained Interests;
- Interest earned on temporary (short-term) investments;
- Gains relating to structured loan sale transactions;
- Gains relating to sales of our Hotel Properties; and
- Other fees, including late fees, prepayment fees, construction monitoring fees and site visit fees.

Our ability to generate interest income, as well as other revenue sources, is dependent on economic, regulatory and competitive factors that influence interest rates and loan originations, and our ability to secure financing for our investment activities. The amount of other income earned will vary based on volume of loans funded, the timing and amount of financings, the volume of loans receivable which prepay, the mix of loans (construction versus non-construction), the rate and type of loans originated (whether fixed or variable) as well as the general level of interest rates. For a more detailed description of the risks affecting our financial condition and results of operations, see "Risk Factors" in Item 1 of this Form 10-K.

Commencing in the latter half of 2001, our ability to compete for fixed-rate lending opportunities declined. Interest rates have remained at historically low levels for a prolonged period of time providing the banking industry with the ability to offer fixed-rate "mini-perm" loans (*i.e.*, five-year maturity, 20-year amortization) based on these low short-term rates. In contrast, the interest rates on our fixed-rate loan products are based on a longer term (10-year U.S. Treasuries) which remained at disproportionately higher levels than shorter term financial indices. As a result, the fixed interest rates we offered were higher than the banks and our lending opportunities decreased. However, we are able to compete more effectively when offering a LIBOR-based variable-rate loan product.

At December 31, 2002, our variable-rate loans receivable were $42.1 million (58%) of our loans receivable. At December 31, 2002, all of our commitments were for variable-rate loans, and given the current interest rate market, we expect to continue to originate primarily variable-rate loans. At December 31, 2002, we had approximately $40.9 million of total loan commitments and approvals outstanding with interest rates based on

spreads over LIBOR ranging from 3.50% to 4.25%. The weighted average interest rate on loan commitments at December 31, 2002 was 5.6% which is lower than our historical weighted average interest rate on loan commitments because we are currently originating primarily variable-rate interest loans. Commitments have fixed expiration dates and require payment of a fee to us.

Our commitments to fund loans as of December 31, 2002 were approximately $17.3 million greater than commitments outstanding of $23.6 million at December 31, 2001. Based on current market conditions, we anticipate that our loan origination volume will range from $40 million to $50 million during 2003. However, there can be no assurance of the accuracy of this estimate.

The weighted average interest rate on our loans receivable declined to 7.5% at December 31, 2002 from 9.6% at December 31, 2001 primarily as a result of a decrease in the average quarterly LIBOR (244 basis points) during 2002 which is utilized in the determination of our quarterly variable rates and an increase in variable-rate lending.

ECONOMIC FACTORS

The following provides a summary of the more significant economic factors that may have an impact on our financial condition and results of operations. The factors described below could impact the volume of loan originations, the income we earn on our assets, our ability to complete a securitization, the performance of our loans and/or the performance of our SPEs.

Interest Income and Rates: As a result of our increasing dependence on variable-rate loans, the continued prolonged low interest rate environment has caused our interest income to be reduced. To the extent that rates remain at these historically low levels, or LIBOR decreases from current levels, we will earn less interest income. Alternatively, when rates rise in the future, the interest we earn on our performing variable-rate loans will increase. In addition, the decreased loan origination volume during 2002 (compared to 2001) affected our interest income. Interest income can continue to be reduced if (i) principal payments on outstanding loans receivable exceed our loan originations, (ii) interest rates continue to decrease, or (iii) problem loans increase.

Interest Rate Spreads : Our net interest margin is dependent upon the difference between the cost of our borrowed funds and the rate at which we invest these funds (the “spread differential”). A significant reduction in spread differential may have a material adverse effect on our results of operations. Over the past few years the spread differential has been reduced causing decreased income from continuing operations. There can be no assurance that the spread differential will not continue to decrease. We believe that our LIBOR-based loan program will provide us with a spread differential (resulting from our structured loan sale transactions) that approximates the spread differential we have historically received on our fixed-rate transactions due to management’s belief that there is a more favorable market for LIBOR-based structured loan sale transactions compared to fixed-rate structured loan sale transactions.

Loan Origination Trend: During the latter part of 2001, we commenced marketing and selling a variable-rate loan product based on LIBOR which presently provides a lower cost variable interest rate alternative to our borrowers as a result of market conditions. During the first half of 2002, we experienced decreases in lending opportunities, loans funded and loan commitments compared to the prior year due to competition resulting from the interest rate environment and the economic uncertainty which specifically had an impact on the hospitality sector. As a result of the continuation of low short-term interest rates, banks continue to offer their “mini-perm” short-term loans at rates considerably lower than our long-term fixed-rate loans and often with less down payment requirements. In addition, as a result of the economic uncertainty following the tragic events of September 11th, fewer hospitality properties were marketed to be sold; therefore, fewer property sales required financing. However, during the last half 2002, we perceived a change in the economic environment for limited service hospitality properties and more property owners were willing to refinance into variable-rate loans and more properties were being sold. As a result of our borrowers’ acceptance of our LIBOR-based lending program and the change in the market, our loan commitments and lending opportunities increased during the second half of 2002. We believe this trend will continue in 2003. All of our current commitments are based on LIBOR.

Hospitality Industry Factors: During 2001, there were reductions in business and discretionary travel causing a moderation in demand for hotel rooms and a slowdown in construction of hospitality properties (including limited service hospitality properties). These reductions were primarily caused by (i) traveler concerns about the safety and convenience of air travel, (ii) a general reluctance to be away from home and (iii) a downturn in corporate profits, investments and transactions which led to aggressive business travel reductions. Although the Federal Reserve lowered interest rates during 2001 to aid in stimulating the economy and to provide liquidity, consumer and business confidence declined. This lack of confidence, which continued into 2002 and 2003, caused a significant strain on the travel and hotel industries as well as numerous other industries in the United States. Political uncertainties, including the possibility of war, have impeded a rebound in consumer and investor confidence and spending. However, the limited service segment of the hospitality industry has been less impacted and has continued to outperform the luxury and upscale sectors which experienced the weakest performance.

Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing our loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates decrease for properties located on interstate highways.

PORTFOLIO INFORMATION

Lending Activities

– General

Our lending activities consist primarily of originating loans to borrowers who operate in the hospitality industry. Our net loans receivable were $72.0 million and $78.5 million at December 31, 2002 and 2001, respectively. During 2002 and 2001, we originated loans totaling $32.8 million and $51.7 million and received repayments of $12.3 million (of which approximately $9.6 million represented prepayments) and $5.9 million (of which approximately $2.7 million represented prepayments), respectively. When originating a loan, we charge a commitment fee. During 2002 and 2001, we collected commitment fees of $575,000 and $521,000, respectively. These fees are deferred and recognized as an adjustment of yield over the life of the related loan receivable.

At December 31, 2002, approximately $42.1 million of our loans receivable had a variable interest rate (reset on a quarterly basis) based primarily on LIBOR with a weighted average interest rate of approximately 5.4%. The spread that we charge over LIBOR generally ranges from 3.50% to 4.50%. LIBOR used in determining interest rates during the first quarter of 2003 (set on January 1, 2003) was 1.38%. To the extent LIBOR changes, we will see changes in interest income from our variable-rate loans receivable. In addition, at December 31, 2002, approximately $29.9 million of our loans receivable had a fixed interest rate with a weighted average interest rate of 10.4%. See Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.”

– Prepayment Activity

Prepayment activity on our fixed-rate loans receivable has increased as a result of the current low interest rate environment (the prime rate, LIBOR and the interest rates on treasury notes decreased substantially during 2001 and 2002). We believe that we may continue to see increased prepayment activity at high levels (particularly in relation to our fixed-rate loans receivable) in 2003. Many of our prepayment fees for our fixed-rate loans receivable are based upon a yield maintenance premium which provides for greater fees as interest rates decrease. In addition, certain loans receivable have prepayment prohibitions of up to five years.

The timing and volume of our prepayment activity for both our variable and fixed-rate loans receivable fluctuate and are impacted by numerous factors including the following:

- The competitive lending environment (*i.e.,* availability of alternative financing);
- The current and anticipated interest rate environment (*i.e.,* if interest rates are expected to rise or fall);
- The market for limited service hospitality property sales; and
- The amount of the prepayment fee and the length of prepayment prohibition.

When our loans receivable are repaid prior to their maturity, we generally receive prepayment fees. Prepayment fees result in one-time increases in our income. The proceeds from the prepayments we receive are invested initially in temporary investments and have generally been re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. These lower interest rates have had an adverse effect on our interest income and depending upon the rate of future prepayments may further impact our interest income. It is difficult for us to accurately predict the volume or timing of prepayments since the factors listed above are not all-inclusive and changes in one factor are not isolated from changes in another which might magnify or counteract the rate or volume of prepayment activity.

– Problem Loans

As of December 31, 2002, there were no loans receivable greater than 31 days delinquent. Our policy with respect to loans receivable which are in arrears as to interest payments for a period in excess of 60 days is generally to discontinue the accrual of interest income and reverse previously recorded interest income which is deemed uncollectible. To the extent a loan becomes an impaired loan, we will deliver a default notice and begin foreclosure and liquidation proceedings when we determine that pursuit of these remedies is the most appropriate course of action.

Senior management closely monitors our Problem Loans which are classified into two categories: Impaired Loans and Special Mention Loans. Our Impaired Loans are loans which are either past due greater than 60 days or the collection of the balance of principal and interest is considered impaired and a loan loss reserve has been established. Our Special Mention Loans are those loans receivable that are not complying with their contractual terms but we expect a full recovery of the principal balance through either collection efforts or liquidation of collateral.

Historically, we have not had a significant amount of Impaired Loans or delinquent loans nor have we had a significant amount of charged-off loans. Our Problem Loans were as follows:

	December 31,	
	2002	2001
	(In thousands)	
Impaired Loans:		
Loans receivable	$1,756	$1,370
Sold loans of SPEs	—	—
	$1,756	$1,370
Special Mention Loans:		
Loans receivable	$ —	$1,174
Sold loans of SPEs	1,362	1,868
	$1,362	$3,042
Percentage impaired loans:		
Loans receivable	2.4%	1.7%
Sold loans of SPEs	—	—
Percentage Special Mention Loans:		
Loans receivable	—	1.4%
Sold loans of SPEs	1.3%	1.2%

Our provision for loan losses as a percentage of our weighted average outstanding loans receivable was 0.09% (9 basis points) and 0.27% (27 basis points) during 2002 and 2001, respectively. At December 31, 2002 and 2001, we had reserves in the amount of $365,000 and $300,000, respectively, against loans receivable that we have determined to be potential Impaired Loans.

Retained Interests

At December 31, 2002 and 2001, the estimated fair value of our Retained Interests was $23.5 million and $17.8 million, respectively. Retained Interests represents our ownership interest in loans receivable that have been contributed to SPEs and have been recorded as sold. Our Retained Interests consist of (i) the retention of a portion of each of the sold loans (the “required overcollateralization”), (ii) required cash balances owned by the SPE (the “reserve fund”) and (iii) future excess funds to be generated by the SPE after payment of all obligations of the SPE (the “interest-only strip receivable”).

The value of our Retained Interests is based on estimates of the present value of future cash flows we expect to receive from the SPEs. Estimated future cash flows are based in part upon estimates of prepayment speeds and loan losses. Prepayment speeds and loan losses are estimated based on the current and anticipated interest rate and competitive environments and our historical experience with these and similar loans receivable. The discount rates utilized are determined for each of the components of Retained Interests as estimates of market rates based on interest rate levels considering the risks inherent in the transaction. Changes in any of our assumptions, or actual results which deviate from our assumptions, may materially affect the value of our Retained Interests.

The net unrealized appreciation on our Retained Interests at December 31, 2002 and 2001 was $3.8 million and $2.2 million, respectively. The increase of $1.6 million relates primarily to a decrease in the discount rates used to value our Retained Interests (the reduction in discount rates ranged from 130 basis points to 170 basis points) resulting from the lower interest rate environment at December 31, 2002 compared to December 31, 2001 for the 2000 Joint Venture and the 2001 Joint Venture and a decrease in the discount rates used to value our Retained Interests (the reduction in discount rates ranged from 110 basis points to 115 basis points) resulting from the lower interest rate environment at December 31, 2002 compared to April 12, 2002 (the date we completed the transaction) for the 2002 Joint Venture. Any appreciation of our Retained Interests is included in the accompanying balance sheet in beneficiaries’ equity while any depreciation of our Retained Interests is either included in the accompanying statement of income as a realized loss (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries’ equity as an unrealized loss.

Property Ownership

Our Hotel Properties are operated by Arlington pursuant to our sale/leaseback agreement.

The following table summarizes statistical data regarding our 22 Hotel Properties(1):

	Years Ended December 31,		
	2002	2001	2000
Occupancy	58.74%	57.32%	59.58%
ADR (2)	$ 54.60	$ 53.24	$ 55.48
RevPAR (3)	$ 32.02	$ 32.23	$ 32.74
Room revenue	$15,655,627	$15,772,935	$16,222,702
Rooms rented	287,190	280,482	292,507
Rooms available	488,921	489,356	491,093

(1) Arlington has provided all data (only includes properties owned as of December 31, 2002).

(2) “ADR” is defined as the average daily room rate.

(3) “RevPAR” is defined as room revenue per available room and is determined by dividing room revenue by available rooms for the applicable period.

Our income related to the Hotel Properties is from lease payments. Our lease is a “triple net” lease; therefore, all expenses of operation including insurance and real estate taxes are the obligation of Arlington. The data provided above is for informational purposes only. All revenues and expenses from operation of the properties belong to Arlington. The revenues generated by our properties decreased slightly (approximately 1%) in 2002 compared to 2001. The decrease is concentrated in two properties which had new competition open during the year.

A summary of financial information for the lessee of our properties, Arlington, which has been derived from their public filings as of December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000, is as follows:

ARLINGTON HOSPITALITY, INC.

	December 31,	
	2002	2001
	(In thousands)	
BALANCE SHEET DATA:		
Investment in hotel assets	$103,903	$ 98,300
Cash and short term investments	3,970	4,748
Total assets	119,934	115,174
Total liabilities	102,564	96,107
Shareholder's equity	17,370	19,067

	Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
INCOME STATEMENT DATA:			
Total revenue	$76,531	$77,153	$76,151
Operating income	1,992	5,547	4,653
Net income (loss)	(1,710)	755	4,010

Arlington is a public entity that files periodic reports with the SEC. Additional information about Arlington can be obtained from the SEC's website at *www.sec.gov* .

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and our results of operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Our management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of our Board of Trust Managers (the "Board"), and the audit committee has reviewed the disclosures relating to these policies and estimates included in this annual report.

We believe the following critical accounting considerations and significant accounting policies represent our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Valuation of Loans Receivable

Loan loss reserves are established based on a determination, through an evaluation of the recoverability of individual loans receivable, that significant doubt exists as to the ultimate realization of the loan receivable. We monitor the loan portfolio on an ongoing basis and evaluate the adequacy of our loan loss reserves. In our analysis, we review various factors, including the value of the collateral securing the loan receivable and the borrower's payment history. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan requires judgment and consideration of the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of significant additional loan loss reserves. If a determination is made that significant doubt exists as to the ultimate collection of our loans receivable, the effect on our results of operations may be material.

Our provision for loan losses was 0.09% (nine basis points) and 0.27% (27 basis points) of our weighted average outstanding loans receivable during 2002 and 2001, respectively. It may be difficult to maintain such a low loss rate on our loans receivable. To the extent one or several of our loans experience significant operating difficulties and we are forced to liquidate the loans, future losses may be substantial.

Valuation of Retained Interests

Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of our Retained Interests and the limited number of buyers for such assets, no readily ascertainable market exists for our Retained Interests. Therefore, our determination of value may vary significantly from what a willing buyer would pay for these assets.

The valuation of our Retained Interests is our most volatile critical accounting estimate because the valuation is dependent upon estimates of future cash flows that are dependent upon the performance of the underlying loans receivable. Prepayments or losses in excess of estimates will cause unrealized depreciation and ultimately realized losses. The value of our Retained Interests is determined based on the present value of estimated future cash flows from the SPEs. The estimated future cash flows are calculated based on assumptions including, among other things, prepayment speeds and loan losses. We regularly measure loan loss and prepayment assumptions against the actual performance of the loans receivable sold and to the extent adjustments to our assumptions are deemed necessary, they are made on a quarterly basis. If prepayment speeds occur at a faster rate than anticipated, or future loan losses occur quicker than expected, or in amounts greater than expected, the value of the Retained Interests will decline and total income in future periods would be reduced. If prepayments occur slower than anticipated, or future loan losses are less than expected, cash flows would exceed estimated amounts, the value of our Retained Interests would increase and total income in future periods would be enhanced. Although we believe that assumptions as to the future cash flows of the structured loan sale transactions are reasonable, actual rates of loss or prepayments may vary significantly from those assumed and other assumptions may be revised based upon anticipated future events. These assumptions are updated on a quarterly basis. Over the past three years, there has been no significant change in the methodology employed in valuing these assets. The discount rates utilized in computing the net present value of future cash flows are based on an estimate of the inherent risks associated with each cash flow stream.

Significant estimates related to our Retained Interests were as follows at December 31, 2002:

	Constant Prepayment Rate (1)	Aggregate Losses Assumed (2)	Range of Discount Rates
2000 Joint Venture	9.5%	2.65%	6.7% to 11.4%
2001 Joint Venture	9.5%	3.38%	6.7% to 11.4%
2002 Joint Venture	9.5%	3.38%	7.1% to 11.8%

(1) Based on anticipated principal prepayments considering the loans sold and other similar loans.

(2) As a percentage of the outstanding principal balance of the underlying loans receivable as of December 31, 2002 based upon per annum losses that ranged from 0.4% to 0.8%.

Future annualized loan losses of 40 basis points or greater were estimated on all of our structured loan sale transactions. At December 31, 2002, we have identified one sold loan ($1.4 million) that we consider a Special Mention Loan. If we have to liquidate this loan, losses may exceed estimates and the value of our Retained Interests will decline.

In addition, prepayments in excess of assumptions will cause a decline in the value of our Retained Interests relating to the excess funds (our interest-only strip receivable) expected from our structured loan sale transactions. For example, if a $1.0 million loan with an interest rate of 10% prepays and the “all-in cost” of that Joint Venture’s structured notes was 7%, we would lose the 3% spread we had expected to receive on that loan in future periods. The “spread” that is lost may be offset in part or in whole by the prepayment fee that we collect.

The following is a sensitivity analysis of our Retained Interests as of December 31, 2002 to highlight the volatility that results when prepayments, loan losses and discount rates are different than our assumptions:

Changed Assumption	Pro-Forma Value	Asset Change
	(In thousands)	
Losses increase by 50 basis points per annum (1)	$21,751	($1,781)
Losses increase by 100 basis points per annum (1)	$20,040	($3,492)
Rate of prepayment increases by 5% per annum (2)	$22,714	($ 818)
Rate of prepayment increases by 10% per annum (2)	$22,178	($1,354)
Discount rates increase by 100 basis points	$22,481	($1,051)
Discount rates increase by 200 basis points	$21,500	($2,032)

(1) If we experience significant losses (i.e., in excess of anticipated losses), the effect on our Retained Interests would first reduce the value of the interest-only strip receivables. To the extent the interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of our reserve funds and then the value of our required overcollateralization.

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

These sensitivities are hypothetical and should be used with caution. Pro-forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of our Retained Interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

RESULTS OF OPERATIONS

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

– Overview

Net income decreased by $1,499,000 (13%), to $9,936,000 during 2002 from $11,435,000 during 2001. Our basic earnings per share decreased $0.24 (13%), to $1.54 per share during 2002 from $1.78 per share during 2001. The decrease in net income is primarily due to:

- decreased interest income of $1,545,000 due to the sale of loans receivable and an increase in variable-rate lending with lower variable interest rates than our fixed interest rate loans;
- a reduction in the gain on sale of our loans receivable of $871,000 due to a smaller volume of loans sold and decreased anticipated cash flows due to reduced net interest spread;
- a reduction in the gain on sale of our real estate investments of $687,000 as a result of the sale of five properties during 2001 compared to two properties sold during 2002; and
- decreased lease income of $528,000 as a result of the sale of hotel properties.

Partially offsetting these decreases in net income were:

- increased income from our Retained Interests of $1,078,000 due primarily to the completion of structured loan sale transactions;
- increased other income of $624,000 due primarily to increased prepayment fees received; and
- decreased interest expense of $575,000 due to reduced balances outstanding on our structured notes payable from our 1998 structured loan financing and a decrease in the weighted average balance and interest rate on our revolving credit facility.

Significant changes in revenues and expenses are further described below.

– Revenues

Interest income decreased by $1,545,000 (20%), to $6,236,000 during 2002 from $7,781,000 during 2001. The decrease was primarily attributable to (i) a decrease in our weighted average loans receivable outstanding of $3.9 million (5%), to $69.1 million during 2002 from $73.0 million during 2001 (due primarily to the sale of $27.3 million in loans receivable in a structured loan sale transaction completed in April 2002) and (ii) a decrease in our weighted average interest rate to 7.5% at December 31, 2002 from 9.6% at December 31, 2001, primarily resulting from lower variable interest rates and increased variable rate lending. Average quarterly LIBOR decreased by 244 basis points from 2001 to 2002.

Lease income decreased by $528,000 (8%), to $5,743,000 during 2002 from $6,271,000 during 2001. Lease income decreased primarily due to the sale of five hotel properties during 2001 and two hotel properties during 2002. Lease income will continue to decrease as additional properties are sold.

Income from Retained Interests increased $1,078,000 (59%), to $2,893,000 during 2002 compared to $1,815,000 during 2001. The income from our Retained Interests is comprised of the yield on our Retained Interests. The increase was the result of (i) an increase in the balance of our Retained Interests due to the completion of our structured loan sale transactions and (ii) an increase in the yield on our Retained Interests to 13.2% during 2002 from 12.7% during 2001 resulting from better than anticipated performance and cash flows related to the loans receivable included in our structured loan sale transactions.

Other income increased $624,000 (116%), to $1,164,000 during 2002 compared to $540,000 during 2001. The increase is primarily attributable to increased prepayment fees received during 2002.

– Interest Expense

Interest expense decreased by $575,000 (14%), to $3,445,000 during 2002 from $4,020,000 during 2001. The decrease was primarily attributable to (i) a decrease in interest expense on our structured notes payable from our 1998 structured loan financing due to a declining principal balance ($26.0 million outstanding at December 31, 2002 compared to $33.8 million outstanding at December 31, 2001), (ii) a decrease in the weighted average borrowings outstanding under the revolving credit facility to $4.2 million during 2002 compared to $6.5 million during 2001 and (iii) a decrease in the weighted average interest rate on our revolving credit facility to 3.6% during 2002 from 5.6% during 2001.

Interest expense consisted of the following:

	Years Ended December 31,	
	2002	2001
	(In thousands)	
Structured Notes	$1,982	$2,314
Mortgages on Hotel Properties	1,156	1,175
Revolving credit facility	296	516
Other	11	15
	$3,445	$4,020

Other Expenses

Advisory and servicing fees to affiliate, net, increased by $64,000 (4%), to $1,793,000 during 2002 from $1,729,000 during 2001.

Fees associated with the Advisory Agreements consisted of the following:

	Years Ended December 31, 2002	Years Ended December 31, 2001
	(In thousands)	
Lease supervision fee	$ 381	$ 441
Investment management fee	1,927	1,803
Total fees incurred	2,308	2,244
Less:		
Management fees included in discontinued operations	(25)	(49)
Fees incurred by the SPEs	(298)	(198)
Cost of structured loan sale transactions	(57)	(60)
Fees capitalized as cost of originating loans	(135)	(208)
Advisory and servicing fees to affiliate, net	$1,793	$1,729

Impairment loss on assets held for sale was $54,000 during 2002. The impairment loss resulted from a write-down of the carrying value of our asset acquired in liquidation held for sale as a result of management’s estimate of the fair value of the property.

Realized losses on Retained Interests decreased $28,000 (35%), to $53,000 during 2002 from $81,000 during 2001 resulting from reductions in expected future cash flows primarily related to lower than anticipated income on our reserve funds.

Provision for loan losses decreased $135,000 (68%), to $65,000 during 2002 from $200,000 during 2001. The reserves established during 2001 were related to two loans that we identified as potential problem loans. At December 31, 2002, no loans were delinquent greater than 31 days; however, we identified a reserve on one loan on which significant doubt existed as to the ultimate realization of the loan.

– Discontinued operations

Our profit from discontinued operations increased by $503,000 (106%), to a net profit of $978,000 during 2002 from a net profit of $475,000 during 2001. During 2002, we sold two of our hotel properties for $5.2 million resulting in a net gain on sale of $663,000. In addition, in accordance with SFAS No. 144, results of operations from the hotel properties sold during 2002 are included in discontinued operations for the years ended December 31, 2002 and 2001; however, the corresponding gain on sale and operations of our real estate investments sold during 2001 were not reclassified to discontinued operations.

– Gain on sale of assets

Gain on sale of real estate investments was $1,350,000 during 2001 due to the sale of five of our Hotel Properties for $13.0 million.

Gain on sale of loans receivable was $562,000 and $1,433,000 during 2002 and 2001, respectively. The decrease in gain is primarily the result of (i) a decrease in the amount of loans sold from $32.7 million in June 2001 to $27.3 million during April 2002 and (ii) a decrease in the spread earned at the time the transactions were completed to 2.56% for the structured loan sale transaction completed in April 2002 compared to 3.26% for the structured loan sale transaction completed in June 2001.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

– Overview

Net income increased by $2,070,000 (22%), to $11,435,000 during 2001 from $9,365,000 during 2000. Our basic earnings per share increased $0.34 (24%), to $1.78 per share during 2001 from $1.44 per share during 2000.

The increase in net income is primarily due to:

- a decrease in our interest expense of $2,762,000 as a result of the repayment of borrowings outstanding under our revolving credit facility and a reduction in the weighted average interest rate on our revolving credit facility;
- an increase in income from our Retained Interests of $1,742,000 due primarily to the structured loan sale transactions completed in June 2001 and December 2000;
- an increase in the gain on sale of our real estate investments of $1,046,000 as a result of the sale of five properties during 2001 compared to one property sold during 2000; and,
- an increase in the gain on sale of our loans receivable of $316,000 due to increased anticipated cash flows due to increased net interest spread.

Partially offsetting these increases in net income were decreased interest income of $3,763,000 due to the sale of loans receivable and an increase in variable-rate lending with lower variable interest rates than our fixed interest rate loans.

Significant changes in revenues and expenses are further described below.

– Revenues

Interest income on our loans receivable decreased by $3,763,000 (33%), to $7,781,000 during 2001 from $11,544,000 during 2000. This decrease in interest income was primarily attributable to the sale of $32.7 million of loans receivable in our June 2001 structured loan sale transaction and the sale of $55.7 million of loans receivable in our December 2000 structured loan sale transaction. As a result, our weighted average loans receivable outstanding decreased by $35.6 million (33%), to $73.0 million during 2001 from $108.6 million during 2000. In addition, primarily as a result of a decrease in variable interest rates, our weighted average interest rate on loans receivable outstanding declined to 9.6% at December 31, 2001 compared to 10.0% at December 31, 2000. During 2001 we commenced originating loans with a variable interest rate and at December 31, 2001, we had variable-rate loans receivable of $11.5 million outstanding with a weighted average interest rate of 6.8%.

Lease income decreased by $573,000 (8%), to $6,271,000 during 2001 from $6,844,000 during 2000. Lease income decreased primarily due to the sale of five of our Hotel Properties in 2001 and one property during 2000. This decrease was partially offset by increased percentage rent from 2% to 4% of room revenue effective January 2001 on our Hotel Property portfolio.

Income from Retained Interests increased $1,742,000 to $1,815,000 during 2001 compared to $73,000 during 2000. The income from our Retained Interests is comprised of the yield accreted on our Retained Interests. The increase in income from our Retained Interests was the result of an increase in our Retained Interests from our structured loan sale transactions completed in December 2000 and June 2001.

– Interest Expense

Interest expense decreased by $2,762,000 (41%), to $4,020,000 during 2001 from $6,782,000 during 2000. The decrease was attributable to (i) a reduction in the weighted average borrowings outstanding under the revolving credit facility to $6.5 million during 2001 compared to $12.2 million during 2000 resulting from the use of proceeds from the December 2000 and June 2001 structured loan sale transactions used to repay these borrowings and (ii) a reduction in the weighted average interest rate on our revolving credit facility to 5.6% at December 31, 2001 from 7.9% at December 31, 2000.

Interest expense consisted of the following:

	Years Ended December 31, 2001	2000
	(In thousands)	
Structured Notes	$2,314	$2,699
Mortgages on Hotel Properties	1,175	1,250
Revolving credit facility	516	2,805
Other	15	28
	$4,020	$6,782

– Other Expenses

Advisory and servicing fees to affiliate, net decreased by $176,000 (9%), to $1,729,000 during 2001 from $1,905,000 during 2000.

Fees associated with the Advisory Agreements consisted of the following:

	Years Ended December 31, 2001	2000
	(In thousands)	
Lease Supervision Fee	$ 441	$ 500
Investment Management Fee	1,803	1,699
Total fees incurred	2,244	2,199
Less:		
Management fees included in discontinued operations	(49)	(49)
Fees incurred by the SPEs	(198)	—
Fees capitalized as cost of originating loans	(208)	(145)
Cost of structured loan transactions	(60)	(100)
Advisory and servicing fees to affiliate, net	$1,729	$1,905

General and administrative expenses increased by $80,000 (55%), to $226,000 during 2001 from $146,000 during 2000. The increase was primarily due to increases in insurance expense, printing costs and bank fees.

Realized losses on Retained Interests were $81,000 during 2001 resulting from a reduction in expected future cash flows resulting from lower than anticipated income on our reserve funds. We had no realized losses on our Retained Interests during 2000.

Provision for loan losses was $200,000 and $600,000 during 2001 and 2000, respectively. These loan loss provisions were established based on the determination, through an evaluation of the recoverability of individual loans receivable, by our Board that significant doubt exists as to the ultimate realization of the specific loan receivable. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan receivable requires judgment and consideration of the facts and circumstances existing at the evaluation date. The $200,000 provision for loan losses recorded during 2001 was related to two loans receivable that we identified as Impaired Loans during 2001.

The provision for loan losses recorded in 2000 was primarily attributable to one loan receivable. During 2000, we foreclosed on the collateral underlying the loan receivable and determined that the collateral was impaired as a result of the general condition of the building and fixtures. Based on an updated appraisal and the available information on the condition of our collateral at that time, we recorded a $600,000 loss relating to the property. We were not in the process of liquidating any loans receivable as of December 31, 2001 nor were there any delinquent loans.

– Discontinued operations

Our profit from discontinued operations increased by $10,000 (2%), to a net profit of $475,000 during 2001 from a net profit of $465,000 during 2000.

– Gain on sale of assets

Gain on sale of assets increased by $1,362,000 (96%), to $2,783,000 during 2001 from $1,421,000 during 2000. The primary reason for the increase was the sale of five of our Hotel Properties for $13.0 million resulting in a net gain of $1.4 million during 2001. During 2000 we sold one of our Hotel Properties for $3.2 million resulting in a net gain of $304,000. In addition, our gains from structured loan sale transactions increased to $1.4 million from $1.1 million related to the June 2001 and December 2000 transactions, respectively.

CASH FLOW ANALYSIS

We generated $11,213,000 and $9,198,000 in cash from operating activities during 2002 and 2001, respectively. The primary source of funds from operating activities is our net income. The increase in cash flows from operating activities of $2,015,000 primarily relates to the change in our other operating assets and liabilities of $995,000 and a decrease in payments made to our affiliates of $1,088,000. We pay dividends from the cash flow generated by our operating activities.

Our investing activities reflect a net source of funds of $7,104,000 and net use of funds of $3,434,000 during 2002 and 2001, respectively. This increase in source of funds of $10,538,000 provided by investing activities is primarily due to a decrease in loans funded net of principal collected of $27,284,000 offset in part by (i) a decrease in proceeds from sale of properties of $9,678,000, (ii) a decrease of $5,489,000 in net proceeds received from our April 2002 structured loan sale transaction compared to our June 2001 structured loan sale transaction and (iii) an increase in our investment in restricted investments of $1,911,000 due to funds received on our 1998 structured loan financing transaction which have not yet been paid to the structured noteholders.

Our financing activities reflect a net use of funds of $18,825,000 and $5,694,000 during 2002 and 2001, respectively. The decrease of $13,131,000 was due primarily to (i) a decrease in net proceeds from our revolving credit facility from a net source of funds of $8,700,000 to a net use of funds of $1,400,000, (ii) an increase in use of funds of $2,314,000 from principal payments on our notes payable due primarily to prepayments on our 1998 structured loan financing transaction and (iii) an increase in dividends paid of $749,000.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

– Overview

Historically, our cash flows provided by operating activities have approximated the dividends paid to our shareholders. In 2003, we anticipate that this relationship will continue and substantially all of our cash flows from operating activities will be sufficient to pay our anticipated 2003 dividend distributions. As a result, our cash flows from operating activities are generally not available to fund our portfolio growth or debt service. During 2002, loans funded ($30.7 million) and debt repayments ($8.6 million) were primarily funded by:

- Principal collections on our loans receivable of $12.3 million;
- Net proceeds from the sale of Hotel Properties of $3.0 million; and,
- Proceeds from our structured loan sale transaction of $24.0 million.

During 2003, we anticipate loan originations will range from $40 million to $50 million, which we expect to be funded through (i) advances under our revolving credit facility, (ii) structured loan sale transaction(s) and (iii) sales of our Hotel Properties. We are currently in process of marketing a co-securitization transaction with PMC Capital and expect the transaction to be completed in the second quarter of 2003.

At December 31, 2002, we had (i) $49,000 of cash and cash equivalents and (ii) availability of $21.2 million under our revolving credit facility with a current borrowing base (the maximum amount that we can have outstanding at any time based on our eligible loans receivable) of $28.5 million. Our outstanding commitments to fund loans at December 31, 2002 totaled $40.9 million and were all for variable-rate loans based on LIBOR. The spreads over LIBOR range from 3.50% to 4.25%. Commitments have fixed expiration dates and require payment of a fee to us. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements.

– Sources of Funds

General

Our ability to continue to originate new loans will depend on our ability to borrow funds, sell assets, complete structured loan sale transactions and/or issue equity on acceptable terms. A reduction in the availability of these sources of funds could have a material adverse effect on our financial condition and results of operations.

We expect that the sources of funds described below should be adequate to meet our existing obligations. However, there can be no assurance that we will be able to raise funds through these financing sources. If these sources are not available, we may have to originate loans at reduced levels and we may have to refer commitments to PMC Advisers.

To meet our liquidity requirements, including origination of new loans, we primarily generate funds from the following sources:

- The issuance of debt securities, including structured loan transactions;
- Our revolving credit facility;
- Borrowings collateralized by Hotel Properties;
- The sale of Hotel Properties; and/or
- The placement of corporate long-term borrowings.

Additional sources of funds include principal and interest collected on our loans receivable, rent collected on our Hotel Properties and the cash flows from our Retained Interests. To the extent these sources represent REIT taxable income, such amounts have historically been distributed to our shareholders. As a result, those earnings are generally not available to fund future investments.

We believe that as a result of the current interest rate environment (the prime rate, LIBOR and the yield on treasury notes decreased substantially during 2001 and 2002), we may experience prepayment activity at relatively high levels (particularly in relation to our fixed-rate loans receivable) in 2003 which may also provide us with an additional source of funds. The majority of our fixed-rate loan receivables' prepayment fees are based on a yield maintenance premium which provides for greater fees as interest rates decrease. In addition, certain loans receivable have prepayment prohibitions of up to five years.

Structured Loan Sale Transactions

Our primary source of funds has been structured loan sale transactions. We generated net proceeds of $24.0 million, $29.5 million and $49.2 million from the completion of our 2002, 2001 and 2000 structured loan sale transactions, respectively. The cash distributions from our Retained Interests are increasing as a result of these structured loan sale transactions. It is anticipated that our primary source of working capital during 2003 will again be structured loan sale transaction(s).

In certain economic markets the availability of funds may be diminished or the "spread" charged for funds from structured loan sale transactions may increase causing us to delay a structured loan transaction. A reduction or delay in the availability of this source of funds could have a material adverse effect on our financial condition and results of operations since working capital may not be available to fund loan originations. To the extent our commitments to fund loans fully utilize our availability under our revolving credit facility, we will attempt to complete additional structured loan sale transactions.

The timing of a securitization also has significant impact on our financial condition and results of operations. Since we rely on structured loan sale transactions as our primary source of operating capital to fund new loan receivable originations, any adverse changes in our ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product we generate, could have a detrimental effect on our ability to sell loans receivable thereby reducing our ability to originate loans.

We are presently in the process of marketing a structured loan sale transaction with PMC Capital of approximately $46 million of our variable-rate loans receivable. Completion of this structured loan sale transaction is expected in the second quarter of 2003. Changes in market conditions may have an impact on the completion of this transaction. While we have been successful in completing our past structured loan transactions in a timely manner, due to the risky nature of these transactions and the many factors which could cause us to delay or postpone a transaction, there can be no assurance of a successful outcome.

In the event a securitization is delayed or unable to be completed, we will either have to increase our capacity under our revolving credit facility, enter into new debt agreements including mortgages on Hotel Properties or cease originating new loans until funds are available. In addition, to the extent there are problems in the asset-backed securities market, we may choose to sell the loans receivable on unfavorable terms including:

- Increased interest rate spreads required by investors that reduces our future cash flows;
- Increased cash reserve requirements; or
- Increased subordinated portions of loans receivable.

Each of the items described above would have a negative impact on our net income. In addition, there are other occurrences that could impair our ability, or alter our decision, to complete a structured loan transaction. These events include, but are not limited to, the following:

- As a result of certain economic conditions, investors in the type of asset-backed securities that we place may widen the “spreads” they require in order to purchase asset-backed securities;
- The deterioration in the performance of either our loan portfolio or the portfolio of PMC Capital may deter potential investors from purchasing our asset-backed securities;
- The deterioration in the operations of the limited service sector of the hospitality industry which may deter potential investors from purchasing our asset-backed securities or lower the available rating from the rating agencies;
- A reduction in the performance of the loans receivable of our prior transactions or of similar transactions (for example, higher than expected loan losses or delinquencies) may deter potential investors from purchasing our asset-backed securities; and
- A change in the underlying criteria utilized by the rating agencies may cause transactions to receive lower ratings than previously issued thereby increasing the cost of capital and decreasing the “spread” on our transaction.

Debt

For our short-term working capital needs, at December 31, 2002, we had a $30 million revolving credit facility (the “Revolver”) which provides funds to originate loans. Subsequent to year-end, the facility was increased to $35 million. The facility will be reduced to $30 million upon the earlier of the completion of a securitization or June 30, 2003. The maximum amount (the “Borrowing Base”) that we can have outstanding at any time is based on eligible loans receivable used as collateral. The Borrowing Base available on each loan receivable is the lesser of (a) 60% of the value of the project underlying the loan receivable collateralizing the borrowing or (b) 85% of the amount of the loan receivable outstanding. At December 31, 2002, based on our eligible loans receivable, our Borrowing Base was $28.5 million. To the extent these borrowings are reinvested in eligible loans receivable, our Borrowing Base will increase (based on the calculation above) and based on anticipated future lending activities, we anticipate that we would be able to fully access our revolving credit facility. We are charged interest on the balance outstanding under the Revolver at our election of either the prime rate of the lender or 162.5 basis points over the 30, 60 or 90-day LIBOR. As of December 31, 2002, we had $7.3 million outstanding under this facility with interest based on the prime rate and LIBOR. The weighted average interest rate on our Revolver at December 31, 2002 was 3.1%. The facility matures in May 2004. We had $12.8 million outstanding under this facility as of February 28, 2003.

With regard to our Hotel Properties, we continue to pursue mortgages on individual properties owned by us. As of December 31, 2002, we had eleven mortgages on our Hotel Properties for an aggregate remaining outstanding principal balance of $15.2 million at a weighted average interest rate of 7.7%. The related notes have interest rates ranging from 5.60% to 8.50% and maturities ranging from May 2004 to August 2019.

Pursuant to our loan origination agreement with PMC Advisers and PMC Capital, if we do not have available capital to fund outstanding commitments, PMC Advisers will refer such commitments to our affiliates and we will receive no income from those outstanding commitments.

– Uses of Funds

General

The primary use of our funds is to originate loans to small businesses in the limited service hospitality industry. We also use funds for payment of dividends to shareholders, management and advisory fees (in lieu of salaries and other administrative overhead), general corporate overhead, interest and principal payments on borrowed funds and the purchase of treasury stock. As a REIT, we must distribute to our shareholders at least 90% of our REIT taxable income to maintain our tax status under the Code. As a result, those earnings will not be available to fund future investments.

Management believes that there may be alternative investment opportunities including investment in real estate. While we have historically been a lender to the limited service hospitality industry, we are not necessarily focusing solely on hospitality properties. We believe that there may be attractive acquisition opportunities in either “major tenant” strip shopping centers or commercial office buildings. We are attempting to identify properties that we intend to leverage up to 75% of their value. Without leverage, it is unlikely that our return on net equity investment will provide us with adequate investment returns. While we are attempting to identify such properties, there can be no assurance that any properties will be identified or, to the extent identified, will be acquired. To date, no opportunities have been identified.

Loan Originations

At December 31, 2002, our commitments to originate loans of $40.9 million were greater than commitments outstanding at December 31, 2001 of $23.6 million. The increase in commitments is primarily the result of borrower acceptance of our LIBOR-based lending program (see “Economic Factors”). We anticipate that our loan origination volume for 2003 (which averaged approximately $8.2 million per quarter in 2002) will range from $40 million to $50 million. As discussed above, these commitments will be funded primarily through (i) advances under our Revolver, (ii) structured loan sale transactions, (iii) sales of our Hotel Properties and (iv) borrowings utilizing Hotel Properties as collateral.

We expect that the sources of funds described above should be adequate to meet our existing obligations and commitments. However, there can be no assurance that we will be able to raise additional funds through these financing sources. If these sources are not available, we may have to originate loans at reduced levels and we may have to refer commitments to PMC Advisers.

– Impact of Inflation

To the extent we originate fixed-rate loans while we borrow funds at variable rates, we would have an interest rate mismatch. In an inflationary environment, if variable-rates were to rise significantly and we were originating fixed-rate loans, our net interest margin would be reduced. Currently we are primarily originating variable-rate loans and $7.3 million of our debt has variable rates of interest; therefore, we do not believe inflation will have a significant impact on us in the near future. To the extent costs of operations rise while the economy prevents a matching rise in revenue rates (*i.e.*, room rates, menu prices, gasoline prices, etc.), our borrowers would be negatively impacted and loan losses could result. Accordingly, our borrowers can be impacted by inflation. In addition, in an inflationary environment we could experience pressure to increase our income and our dividend yield to maintain our stock price.

Operators of hotels, including Arlington, can be impacted by inflation. To the extent costs of operations rise while the economy prevents a matching a rise in room and other amenity rates, Arlington’s results of operations can be negatively impacted and our lease income could be affected.

SUMMARIZED CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

The following summarizes our contractual obligations at December 31, 2002:

Contractual Obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
	Payments Due by Period (In thousands)				
Notes payable (1)	$41,191	$1,691	$9,871	$4,221	$25,408
Revolving credit facility (2)	7,300	7,300	—	—	—
Total contractual cash obligations	$48,491	$8,991	$9,871	$4,221	$25,408

(1) Maturities of our 1998 structured notes payable ($26.0 million at December 31, 2002) are dependent upon cash flows received from the underlying loans receivable. Our estimate of their repayment is based on scheduled principal payments on the underlying loans receivable. Our estimate will differ from actual amounts to the extent we experience prepayments and loans losses.

(2) Our available Borrowing Base on our revolving credit facility at December 31, 2002 was $28.5 million.

Our commitments at December 31, 2002 are summarized as follows:

Other Commitments	Total Amounts Committed	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
		Amount of Commitment Expiration Per Period (In thousands)			
Indemnification (1)	$ —	$ —	$—	$—	$—
Other commitments (2)	40,867	40,867	—	—	—
Total commitments	$40,867	$40,867	$—	$—	$—

(1) Represents our cross indemnification agreements with PMC Capital related to the Joint Ventures with a maximum exposure at December 31, 2002 of $36.3 million as discussed in detail below. We have valued these indemnification agreements at zero.

(2) Represents our loan commitments outstanding.

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. See “Related Party Transactions — Cross Indemnification Agreements.”

When a structured loan sale transaction is completed, the transaction documents that the special purpose entity enters into contain Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the special purpose entity formed as part of the structured loan sale transaction. See “Related Party Transactions — Credit Enhancement Provisions.”

In addition, we have credit enhancement agreements relating to our structured loan financing transaction completed in 1998. Distributions related to this transaction are limited and restricted. The required reserve amount ($1.9 million at December 31, 2002), included in restricted investments in our consolidated balance sheets, is calculated as the outstanding principal balance of the underlying loans receivable which are delinquent 180 days or more plus the greater of 6% of the current outstanding principal balance of the underlying loans receivable or 2% of the underlying loans receivable at inception ($1.4 million). As of December 31, 2002 and 2001, none of the loans receivable in the 1998 structured loan financing were delinquent 180 days or more.

In the normal course of business, we are subject to various proceedings and claims, the resolution of which will not, in management’s opinion, have a material adverse effect on our financial position or results of operations.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The statement, which is effective for financial statements issued for fiscal years beginning after May 15, 2002 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result of this rescission, the criteria in APB Opinion No. 30 will now be used to determine the classification of gains and losses resulting from the extinguishment of debt. The statement also amends SFAS No. 13 to require that when a capital lease is modified in such a way that the change in the lease provisions establishes a new lease which is classified as an operating lease, the asset and lease obligation under the capital lease should be removed, a gain or loss for the difference should be recorded and the new lease should be accounted for as an operating lease. The implementation of SFAS No. 145 on January 1, 2003 will not have a material impact on our consolidated financial statements.

In June 2002, SFAS No. 146, "Accounting for Exit or Disposal Activities" was issued. SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of cost associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force has set forth in Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes (i) costs related to terminating a contract that is not a capital lease and (ii) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred compensation contract. SFAS No. 146 will be effective for financial statements issued for fiscal years beginning after December 15, 2002. The implementation of SFAS No. 146 on January 1, 2003 will not have a material impact on our consolidated financial statements.

FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") in November 2002. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. FIN 45 also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. We have adopted the disclosure requirements of FIN 45 at December 31, 2002.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 improves the prominence and clarity of the pro-forma disclosures required by SFAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the Summary of Significant Accounting Policies footnote or its equivalent. In addition, SFAS No. 148 improves the timeliness of these disclosures by requiring their inclusion in financial reports for interim periods. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. Adoption of the provisions of SFAS No. 148 for 2002 resulted in the addition of our Stock-Based Compensation Plans footnote to our Summary of Significant Accounting Policies footnote to our consolidated financial statements. In addition, effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 prospectively to all awards granted, modified or settled after January 1, 2003.

FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" ("FIN 46") in January 2003. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights, Variable Interest Entities ("VIEs"), and how to determine when and which business enterprise should consolidate the VIE ("the primary beneficiary"). This new model for consolidation applies to an entity which either (i) the equity investors, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 will not impact our consolidated financial statements since it is not applicable to qualifying SPEs accounted for in accordance with SFAS No. 140.

RELATED PARTY TRANSACTIONS

PMC Capital

We are managed by the same executive officers as PMC Capital and PMC Advisers. Three of our trust managers are directors or officers of PMC Capital. PMC Capital is primarily engaged in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. We were organized to provide loans to entities whose borrowing needs and/or strength and stability exceed the limitations set for SBA approved loan programs. As a result, we generally pursue different prospective borrowers than PMC Capital. In order to further mitigate the potential for conflicts of interest, we have entered into the Loan Origination Agreement with PMC Capital and PMC Advisers. Pursuant to the Loan Origination Agreement, all loans that meet our underwriting criteria are presented to us first for funding. If we do not have available uncommitted funds, origination opportunities presented to us may be originated by PMC Capital or it subsidiaries. Many of our existing and potential borrowers have other projects that are currently financed by PMC Capital.

Advisory Agreements

During 2002 and 2001, pursuant to the IMA, we were charged fees between 0.40% and 1.67% annually, based upon the average principal outstanding of our loans receivable. In addition, PMC Advisers earns fees for its assistance with the issuance of our debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by us pursuant to the public offering or private placement of our common shares, and (ii) 50% of any issuance or placement fees incurred by us pursuant to the issuance of our debt securities or preferred shares of beneficial interest. In the event the IMA with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by us in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average invested assets) multiplied by the average invested assets at the date of termination. The IMA is renewable on an annual basis.

In addition, the Lease Supervision Agreement provides for an annual fee of 0.70% of the original cost of the properties to be paid to PMC Advisers for providing services relating to leases on our properties, a fee of $10,000 upon the sale of each Hotel Property and an annual loan origination fee equal to five basis points of the first $20 million in loans receivable funded and 2.5 basis points thereafter. In the event the Lease Supervision Agreement with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Advisers would be entitled to receive the Lease Supervision Fee for a period of five years from the termination date. The Lease Supervision Agreement is renewable on an annual basis.

Pursuant to the Advisory Agreements, we incurred an aggregate of approximately $2.3 million, $2.3 million and $2.2 million in management fees during 2002, 2001 and 2000, respectively.

Cross Indemnification Agreements

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance by either PMC Commercial's or PMC Capital's sold loans receivable (the "Underperforming Company") is pervasive enough to cause the other company (the "Performing Company") to not receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. As a result of the Credit Enhancement Provisions described below, PMC Commercial had a cash flow deferral, and was paid compensation by PMC Capital of less than $1,000. If the reduction of cash flows is deemed permanent *(i.e.*, to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets they have contributed to the related structured loan sale transaction), the balance of reduction to cash flows must be paid to the Performing Company by the Underperforming Company. At December 31, 2002, the maximum potential amount of future payments to PMC Capital (undiscounted and without consideration of any recoveries from the underlying loans receivable) we could be required to make under these cross indemnification agreements was approximately $36.3 million and the discounted amount was $25.2 million which represents the estimated fair value of the Retained Interests reflected on PMC Capital's consolidated balance sheet for the Joint Ventures. All of our loans are collateralized; however, the maximum potential amount of future payments we could be required to make under these cross indemnification agreements has not considered any proceeds from the liquidation of collateral underlying these loans. Upon completion of a joint securitization and on each subsequent quarterly reporting date, management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by us will cause any permanent cash flow reductions to PMC Capital nor does it appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reduction to us. Accordingly, we believe that the fair value of these cross indemnification agreements at inception of the Joint Ventures and as of December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of our sold loans receivable significantly deteriorates, it could be necessary for us to perform under these cross indemnification agreements.

Credit Enhancement Provisions

When our structured loan sale transactions were completed, the transaction documents that the SPE entered into contained Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transactions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed, which would delay or reduce our distribution. As a result of the problem loans in the 2000 Joint Venture (contributed by PMC Capital), a Credit Enhancement Provision was triggered in November 2002. As a consequence, cash flows relating to this transaction were deferred and utilized to fund the increased reserve requirements. Our cash flow deferral at December 31, 2002 and February 28, 2003 was approximately $270,000 and $582,000, respectively. Based on current cash flow assumptions, management anticipates that these funds will be received in future periods.

EQUITY AND DIVIDENDS

During April, July and October 2002 we paid $0.40 per share in dividends to common shareholders of record on March 28, 2002, June 28, 2002 and September 30, 2002, respectively. During December 2002, we declared a $0.40 per share quarterly dividend and a $0.02 per share special dividend to common shareholders of record on December 31, 2002, which were paid during January 2003. During March 2003, we declared a $0.40 per share dividend to common shareholders of record on March 31, 2003, to be paid on April 14, 2003.

Our Board considers many factors including, but not limited to, expectations for future earnings and funds from operations ("FFO"), taxable income, the interest rate environment, competition, our ability to obtain leverage and our loan portfolio activity in determining dividend policy. In addition, as a REIT we are required to pay out 90% of taxable income. Consequently, the dividend rate on a quarterly basis will not necessarily correlate directly to any singular factor such as quarterly FFO or earnings expectations.

To the extent excess FFO is retained and not paid out as quarterly dividends, these funds will be used to originate loans, to reduce debt or to possibly pay year-end extra dividends.

FUNDS FROM OPERATIONS ("FFO")

FFO (i) does not represent cash flows from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including our ability to make distributions, and (iii) should not be considered as an alternative to net income (as determined in accordance with GAAP) for purposes of evaluating our operating performance. For a complete discussion of our cash flows from operations, see "Cash Flow Analysis." We consider FFO to be an appropriate measure of performance for an equity or hybrid REIT that provides a relevant basis for comparison among REITs. FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), means income (loss) before minority interest determined in accordance with generally accepted accounting principles ("GAAP"), excluding gains (losses) from debt restructuring and sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented to assist investors in analyzing our performance and is a measure that is presented quarterly to the Board and is utilized in the determination of dividends to be paid to shareholders. Our method of calculating FFO may be different from the methods used by other REITs and, accordingly, may be not be directly comparable to such other REITs. Our formulation of FFO set forth below is consistent with the NAREIT White Paper definition of FFO.

Our FFO for the years ended December 31, 2002, 2001 and 2000 was computed as follows:

	Years Ended December 31,		
	2002	**2001**	**2000**
		(In thousands)	
Net income	$ 9,936	$11,435	$ 9,365
Less gains on sale of assets	(1,225)	(2,783)	(1,421)
Add depreciation	1,903	2,101	2,250
FFO	$10,614	$10,753	$10,194

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since our consolidated balance sheet consists of items subject to interest rate risk, we are subject to market risk associated with changes in interest rates as described below. Although management believes that the analysis below is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of our balance sheet and other business developments that could affect our financial position and net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by these estimates.

LOANS RECEIVABLE

Changes in interest rates on our fixed-rate loans receivable do not have an immediate impact on interest income. Our interest rate risk on our fixed-rate loans receivable is primarily related to loan prepayments and maturities. The average maturity of our loan portfolio is less than their average contractual terms because of prepayments. The average life of mortgage loans receivable tends to increase when the current mortgage rates are substantially higher than rates on existing mortgage loans receivable and, conversely, decrease when the current mortgage rates are substantially lower than rates on existing mortgage loans receivable (due to refinancings of fixed-rate loans receivable at lower rates). See Item 1.“Business — Risk Factors — We Are Subject to Interest Rate Risk.”

Our loans receivable are recorded at cost and adjusted by deferred commitment fees (recognized as an adjustment of yield over the life of the loan) and loan loss reserves. The fair value of our fixed interest rate loans receivable is dependent upon several factors including changes in interest rates and the market for the types of loans that we have originated. If we were required to sell our loans at a time we would not otherwise do so, our losses may be substantial. At December 31, 2002 and 2001, the fair value of our fixed-rate loans receivable generally approximates the remaining unamortized principal balance of the loans receivable, less any valuation reserves. Our variable-rate loans receivable are generally at spreads over LIBOR consistent with the market. Increases or decreases in interest rates will generally not have a material impact on the fair value of our variable-rate loans receivable.

At December 31, 2002 and 2001, we had $42.1 million and $11.5 million of variable-rate loans receivable, respectively, and $7.3 million and $8.7 million of variable-rate debt, respectively. On the differential between our variable-rate loans receivable outstanding and our variable-rate debt ($34.8 million and $2.8 million at December 31, 2002 and 2001, respectively) we have interest rate risk. To the extent variable rates continue to decrease our interest income net of interest expense would decrease.

The sensitivity of our variable-rate loans receivable and debt to changes in interest rates is regularly monitored and analyzed by measuring the characteristics of our assets and liabilities. We assess interest rate risk in terms of the potential effect on interest income net of interest expense in an effort to ensure that we are insulated from any significant adverse effects from changes in interest rates. Based on our analysis of the sensitivity of interest income and interest expense at December 31, 2002, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net income by approximately $350,000. In comparison, based on our analysis of the sensitivity of interest income and interest expense at December 31, 2001, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net income by approximately $30,000. We are currently more sensitive to interest rate risk because of our focus on variable-rate lending and the increased differential between our variable-rate loans receivable and our variable-rate debt.

NOTES PAYABLE AND REVOLVING CREDIT FACILITY

As of December 31, 2002 and 2001, approximately $41.2 million (85%) and $48.4 million (85%) of our consolidated debt had fixed rates of interest and therefore not affected by changes in interest rates. Currently, market rates of interest are below the rates we are obligated to pay on the majority of our fixed-rate debt. The amount outstanding on our Revolver is based on the prime rate and/or LIBOR and thus subject to adverse changes in market interest rates. Assuming there were no increases or decreases in the balance outstanding under our Revolver at December 31, 2002, each hypothetical 100 basis points increase in interest rates would increase interest expense and decrease net income by approximately $75,000. In comparison, assuming there were no increases or decreases in the balance outstanding under our Revolver at December 31, 2001, each hypothetical 100 basis points increase in interest rates would increase interest expense and decrease net income by approximately $87,000.

Since our fixed-rate debt has coupon rates that are currently higher (in general) than market rates, the fair value of these financial instruments is higher than their cost thus decreasing our net worth. The majority of this debt is the structured notes payable from our 1998 structured loan financing which cannot be repaid other than through collections of principal on the underlying loans receivable. Approximately $6.3 million of our fixed-rate Hotel Property mortgages have significant penalties for prepayment. Approximately $4.8 million have no prepayment penalties and the remaining $4.1 million have prepayment penalties of 2% of the prepaid amount.

The following tables present the principal amounts and weighted average interest rates and fair values required by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes of our outstanding debt at December 31, 2002 and 2001.

The following market risk disclosures related to our outstanding debt as of December 31, 2002:

	Year Ending December 31,							
	2003	2004	2005	2006	2007	Thereafter	Carrying Value	Fair Value (1)
	(Dollars in thousands)							
Fixed-rate debt (2)	$1,691	$7,103	$2,768	$2,006	$2,215	$25,408	$41,191	$43,520
Variable-rate debt (primarily LIBOR-based) (3)	7,300	—	—	—	—	—	7,300	7,300
Totals	$8,991	$7,103	$2,768	$2,006	$2,215	$25,408	$48,491	$50,820

(1) *The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.*

(2) *The weighted average interest rate of our fixed-rate debt at December 31, 2002 was 6.9%.*

(3) *The weighted average interest rate of our variable-rate debt at December 31, 2002 was 3.1%.*

The following market risk disclosures related to our outstanding debt as of December 31, 2001:

	Year Ending December 31,							
	2002	2003	2004	2005	2006	Thereafter	Carrying Value	Fair Value (1)
	(Dollars in thousands)							
Fixed-rate debt (2)	$ 1,755	$1,935	$8,233	$2,121	$2,345	$31,981	$48,370	$48,481
Variable-rate debt (primarily LIBOR-based) (3)	8,700	—	—	—	—	—	8,700	8,700
Totals	$10,455	$1,935	$8,233	$2,121	$2,345	$31,981	$57,070	$57,181

(1) *The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.*

(2) *The weighted average interest rate of our fixed-rate debt at December 31, 2001 was 6.8%.*

(3) *The weighted average interest rate of our variable-rate debt at December 31, 2001 was 3.6%.*

RETAINED INTERESTS

We have an investment in Retained Interests that is valued based on various factors including estimates of appropriate market discount rates. Changes in the discount rates used in determining the fair value of the Retained Interests will impact their carrying value. Any appreciation of our Retained Interests is included in the accompanying balance sheet in beneficiaries' equity while any depreciation of our Retained Interests is either included in the accompanying statement of income as a realized loss (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries' equity as an unrealized loss. Assuming all other factors (*i.e.*, prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at December 31, 2002, the value of our Retained Interests at

December 31, 2002 would

have decreased by approximately $1.1 million and $2.0 million, respectively. Assuming all other factors (*i.e.*, prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at December 31, 2001, the value of our Retained Interests at December 31, 2001 would have decreased by approximately $746,000 and $1.4 million, respectively. Our increased sensitivity to changes in discount rates is due to the completion of our 2002 structured loan sale transaction.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is hereby incorporated by reference to our Financial Statements beginning on page F-1 of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

We are authorized to grant stock options up to an aggregate of 6% of the total number of Common Shares outstanding at any time as incentive stock options (intended to qualify under Section 422 of the Code) or as options that are not intended to qualify as incentive stock options. All of our equity compensation plans were approved by security holders. Information regarding our equity compensation plans was as follows at December 31, 2002:

	Column		
	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	204,426	$13.86	182,351

Additional information regarding security ownership of certain beneficial owners and management and related shareholder matters is incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders.

Item 14. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 (c) and 15d-14(c)) as of a date within 90 days before the filing date of this annual report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in timely notifying them of material information relating to us (including our consolidated subsidiaries) required to be disclosed in the reports we file or submit under the Exchange Act.

There have not been any significant changes in our internal controls or other factors that could significantly affect these internal controls subsequent to the date of their evaluation. We are not aware of any significant deficiencies or material weaknesses; therefore, no corrective actions were taken.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report

(1) Financial Statements —
See index to Financial Statements set forth on page F-1 of this Form 10-K.

(2) Financial Statement Schedules —
Schedule III — Real Estate and Accumulated Depreciation
Schedule IV — Mortgage Loans on Real Estate

(3) Exhibits
See Exhibit Index beginning on page E-1 of this Form 10-K.

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, hereunto duly authorized.

PMC Commercial Trust
By: /s/ Lance B. Rosemore

Dated March 31, 2003

Lance B. Rosemore, *President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ DR. ANDREW S. ROSEMORE Dr. Andrew S. Rosemore	Chairman of the Board of Trust Managers, Chief Operating Officer and Trust Manager	March 31, 2003
/s/ LANCE B. ROSEMORE Lance B. Rosemore	President, Chief Executive Officer, Secretary and Trust Manager (principal executive officer)	March 31, 2003
/s/ BARRY N. BERLIN Barry N. Berlin	Chief Financial Officer (principal financial and accounting officer)	March 31, 2003
/s/ IRVING MUNN Irving Munn	Trust Manager	March 31, 2003
/s/ ROY H. GREENBERG Roy H. Greenberg	Trust Manager	March 31, 2003
/s/ NATHAN COHEN Nathan Cohen	Trust Manager	March 31, 2003
/s/ DR. IRA SILVER Dr. Ira Silver	Trust Manager	March 31, 2003
/s/ DR. MARTHA GREENBERG Dr. Martha Greenberg	Trust Manager	March 31, 2003

CERTIFICATION

I, Lance B. Rosemore, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of PMC Commercial Trust;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	March 31, 2003	/s/ Lance B. Rosemore
		Lance B. Rosemore Chief Executive Officer

CERTIFICATION

I, Barry N. Berlin, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of PMC Commercial Trust;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	March 31, 2003	/s/ Barry N. Berlin
		Barry N. Berlin Chief Financial Officer

PMC COMMERCIAL TRUST AND SUBSIDIARIES
FORM 10-K
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Accountants

To the Shareholders and Board of Trust Managers of
PMC Commercial Trust:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, beneficiaries' equity, and cash flows present fairly, in all material respects, the financial position of PMC Commercial Trust and its subsidiaries ("the Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of or Disposal of Long-Lived Assets."

PricewaterhouseCoopers LLP

Dallas, Texas
March 11, 2003, except for Note 18,
as to which the date is March 27, 2003

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2002	December 31, 2001
ASSETS		
Investments:		
Loans receivable, net	$ 71,992	$ 78,486
Real estate investments, net	44,928	52,718
Real estate investment held for sale, net	1,877	—
Retained interests in transferred assets	23,532	17,766
Restricted investments	5,614	5,206
Asset acquired in liquidation held for sale	400	424
Cash equivalents	41	543
Total investments	148,384	155,143
Other assets:		
Due from affiliates	362	72
Deferred borrowing costs, net	268	357
Interest receivable	243	394
Cash	8	14
Other assets, net	433	367
Total other assets	1,314	1,204
Total assets	$149,698	$156,347
LIABILITIES AND BENEFICIARIES' EQUITY		
Liabilities:		
Notes payable	$ 41,191	$ 48,370
Revolving credit facility	7,300	8,700
Dividends payable	2,707	2,577
Borrower advances	1,602	1,028
Due to affiliates	584	600
Unearned commitment fees	447	183
Interest payable	255	317
Other liabilities	1,683	1,801
Total liabilities	55,769	63,576
Commitments and contingencies		
Beneficiaries' equity:		
Common shares of beneficial interest; authorized 100,000,000 shares of $0.01 par value; 6,579,141 and 6,574,141 shares issued at December 31, 2002 and 2001, respectively; 6,446,291 and 6,441,291 shares outstanding at December 31, 2002 and 2001, respectively	66	66
Additional paid-in capital	94,707	94,643
Net unrealized appreciation of retained interests in transferred assets	3,783	2,185
Cumulative net income	78,048	68,112
Cumulative dividends	(81,390)	(70,950)
	95,214	94,056
Less: Treasury stock; at cost, 132,850 shares	(1,285)	(1,285)
Total beneficiaries' equity	93,929	92,771
Total liabilities and beneficiaries' equity	$149,698	$156,347

The accompanying notes are an integral part of these consolidated financial statements.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Years Ended December 31,		
	2002	2001	2000
Revenues:			
Interest income	$ 6,236	$ 7,781	$11,544
Lease income	5,743	6,271	6,844
Income from retained interests in transferred assets	2,893	1,815	73
Other income	1,164	540	577
Total revenues	16,036	16,407	19,038
Expenses:			
Interest	3,445	4,020	6,782
Depreciation	1,845	1,858	2,027
Advisory and servicing fees to affiliate, net	1,793	1,729	1,905
General and administrative	255	226	146
Professional fees	130	116	99
Provision for loan losses	65	200	600
Impairment loss on asset acquired in liquidation held for sale	54	—	—
Realized losses on retained interests in transferred assets	53	81	—
Total expenses	7,640	8,230	11,559
Income from continuing operations	8,396	8,177	7,479
Discontinued operations:			
Gain on sale of real estate investments	663	—	—
Net earnings	315	475	465
	978	475	465
Gain on sale of assets:			
Gain on sale of real estate investments	—	1,350	304
Gain on sale of loans receivable	562	1,433	1,117
	562	2,783	1,421
Net income	$ 9,936	$11,435	$ 9,365
Weighted average shares outstanding:			
Basic	6,444	6,431	6,520
Diluted	6,456	6,443	6,520
Basic and diluted earnings per share:			
Income from continuing operations and gain on sale of assets	$ 1.39	$ 1.71	$ 1.37
Discontinued operations	$ 0.15	$ 0.07	$ 0.07
Net income	$ 1.54	$ 1.78	$ 1.44

The accompanying notes are an integral part of these consolidated financial statements.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years Ended December 31,		
	2002	2001	2000
Net income	$ 9,936	$11,435	$ 9,365
Change in net unrealized appreciation of retained interests in transferred assets:			
Net unrealized appreciation arising during period	2,016	1,435	877
Less realized gains included in net income	(418)	(127)	—
	1,598	1,308	877
Comprehensive income	$11,534	$12,743	$10,242

The accompanying notes are an integral part of these consolidated financial statements.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(In thousands, except share and per share data)

	Common Shares of Beneficial Interest Outstanding	Par Value	Additional Paid-in Capital	Net Unrealized Appreciation of Retained Interests in Transferred Assets	Cumulative Net Income	Cumulative Dividends	Treasury Stock	Total Beneficiaries' Equity
Balances, January 1, 2000	6,536,896	$65	$94,349	$ —	$47,312	$(49,794)	$ —	$ 91,932
Net unrealized appreciation	—	—	—	877	—	—	—	877
Shares repurchased	(105,250)	—	—	—	—	—	(1,022)	(1,022)
Dividends ($1.75 per share)	—	—	—	—	—	(11,367)	—	(11,367)
Net income	—	—	—	—	9,365	—	—	9,365
Balances, December 31, 2000	6,431,646	65	94,349	877	56,677	(61,161)	(1,022)	89,785
Net unrealized appreciation	—	—	—	1,308	—	—	—	1,308
Shares repurchased	(40,829)	—	—	—	—	—	(443)	(443)
Shares issued through exercise of stock options	50,474	1	294	—	—	—	180	475
Dividends ($1.52 per share)	—	—	—	—	—	(9,789)	—	(9,789)
Net income	—	—	—	—	11,435	—	—	11,435
Balances, December 31, 2001	6,441,291	66	94,643	2,185	68,112	(70,950)	(1,285)	92,771
Net unrealized appreciation	—	—	—	1,598	—	—	—	1,598
Shares issued through exercise of stock options	5,000	—	64	—	—	—	—	64
Dividends ($1.62 per share)	—	—	—	—	—	(10,440)	—	(10,440)
Net income	—	—	—	—	9,936	—	—	9,936
Balances, December 31, 2002	6,446,291	$66	$94,707	$3,783	$78,048	$(81,390)	$(1,285)	$ 93,929

The accompanying notes are an integral part of these consolidated financial statements.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 9,936	$ 11,435	$ 9,365
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,903	2,101	2,250
Realized loss on retained interests in transferred assets	53	81	—
Impairment loss on asset acquired in liquidation held for sale	54	—	—
Gain on sale of assets	(1,225)	(2,783)	(1,421)
Accretion of commitment fees	(368)	(485)	(533)
Amortization of borrowing costs	89	58	106
Provision for loan losses	65	200	600
Commitment fees collected, net	575	521	547
Construction monitoring fees collected, net	10	32	63
Due to affiliates	(292)	(1,380)	(215)
Other operating assets and liabilities	413	(582)	554
Net cash provided by operating activities	11,213	9,198	11,316
Cash flows from investing activities:			
Loans funded, net	(30,732)	(51,683)	(22,508)
Principal collected	12,268	5,935	16,108
Proceeds from sale of property, net	3,017	12,695	3,063
Proceeds from structured loan sale transactions, net	24,040	29,529	49,167
Proceeds from retained interests in transferred assets	954	633	—
Investment in retained interests in transferred assets	(1,617)	(1,627)	(2,311)
Purchase of real estate and furniture, fixtures, and equipment	(388)	(490)	—
Proceeds received from (investment in) asset acquired in liquidation, net	(30)	71	86
Release of (investment in) restricted investments, net	(408)	1,503	2,907
Net cash provided by (used in) investing activities	7,104	(3,434)	46,512
Cash flows from financing activities:			
Proceeds from issuance of common shares	64	295	—
Purchase of treasury stock	—	(263)	(1,022)
Proceeds from (payments on) revolving credit facility, net	(1,400)	8,700	(34,605)
Payment of principal on notes payable	(7,179)	(4,865)	(9,917)
Payment of dividends	(10,310)	(9,561)	(12,025)
Net cash used in financing activities	(18,825)	(5,694)	(57,569)
Net increase (decrease) in cash and cash equivalents	(508)	70	259
Cash and cash equivalents, beginning of year	557	487	228
Cash and cash equivalents, end of year	$ 49	$ 557	$ 487
Supplemental disclosures:			
Loans and interest receivable transferred to SPEs, net	$ 2,810	$ 2,814	$ 6,125
Loan receivable originated in connection with sale of hotel property	$ 2,044	$ —	$ —
Interest paid	$ 3,280	$ 3,808	$ 6,654
Reclassification from loans receivable to asset acquired in liquidation held for sale	$ —	$ —	$ 1,181

The accompanying notes are an integral part of these consolidated financial statements.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

Business

PMC Commercial Trust ("PMC Commercial" or together with its wholly-owned subsidiaries, "we", "us" or "our") was organized in 1993 as a Texas real estate investment trust ("REIT"). Our common shares of beneficial interest ("Common Shares") are traded on the American Stock Exchange (symbol "PCC"). We obtain income from the yield earned on the investment portfolio, other related fee income from our lending activities and rental income from property ownership. To date, these investments have been principally in the hospitality industry. Our investment advisor is PMC Advisers, Ltd. and its subsidiary ("PMC Advisers" or the "Investment Manager"), an indirect wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital"), a regulated investment company traded on the American Stock Exchange (symbol "PMC") and related to us through common management.

Principles of Consolidation

The consolidated financial statements include the accounts of PMC Commercial Trust and its wholly-owned subsidiaries, including PMC Commercial Trust, Ltd. 1998-1, a Delaware corporation formed in conjunction with our 1998 structured loan financing transaction. All material intercompany balances and transactions have been eliminated.

Our ownership interest in special purpose entities ("SPEs") created in conjunction with structured loan sale transactions are accounted for as retained interests in transferred assets ("Retained Interests") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS No. 140"). At December 31, 2002, the SPEs are PMC Joint Venture, L.P. 2000 (the "2000 Joint Venture"), PMC Joint Venture, L.P. 2001 (the "2001 Joint Venture") and PMC Joint Venture, L.P. 2002-1 (the "2002 Joint Venture," and together with the 2000 Joint Venture and the 2001 Joint Venture, the "Joint Ventures") of which we own approximately 66%, 39% and 39%, respectively. PMC Capital owns the remaining interests in the Joint Ventures.

Loans Receivable, net

Loans receivable are carried at their outstanding principal balance less net deferred fee revenue and loan loss reserves. Deferred fee revenue is included as a reduction to the carrying value of loans receivable and consists of non-refundable fees less certain direct loan origination costs which are being recognized over the life of the related loan receivable as an adjustment of the yield. A loan loss reserve is established by our Board of Trust Managers based on a determination, through an evaluation of the recoverability of individual loans receivable, that significant doubt exists as to the ultimate realization of the loan receivable. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan receivable requires judgment and considers the facts and circumstances existing at the evaluation date. Our evaluation of the adequacy of the reserve is based on a review of our historical loss experience, known and inherent risks in the loan portfolio, adverse circumstances that may affect the ability of the borrower to repay interest and/or principal and, to the extent payment appears impaired, the estimated value of collateral.

Real Estate Investments, net

Real estate investments are recorded at cost. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets. The buildings and improvements are being depreciated utilizing a 35-year useful life and the furniture, fixtures and equipment are being depreciated over a seven-year useful life. Upon retirement or sale, the cost and related accumulated depreciation are removed from our books and any resulting gains or losses are included in the consolidated statements of income. Under the lease agreements with the lessee of our properties, routine maintenance and repairs are the responsibility of the lessee and are charged to the lessee's operations as incurred; major replacements, renewals and improvements are capitalized.

Real Estate Investment Held for Sale, net

Our real estate investment held for sale is carried at the lower of cost or estimated fair value less selling costs. When an asset is identified by management as held for sale and the sale of the asset is expected to occur within the next twelve months, the property is classified as held for sale and depreciation is discontinued.

Retained Interests

Retained Interests represent our interest in SPEs created in conjunction with our structured loan sale transactions. Retained Interests are carried at estimated fair value, with realized gains and losses included in net income and unrealized gains and losses recorded in beneficiaries' equity. The fair value of our Retained Interests is based on estimates of the present value of future cash flows we expect to receive. Estimated future cash flows are based in part upon an estimate of prepayment speeds and loan losses. Prepayments speeds and loan losses are estimated based on the

current and anticipated interest rate and competitive environments, the performance of the loan pool and our historical experience with these and similar loans receivable. The discount rates that we utilize are determined for each of the components of the Retained Interests as estimates of market rates based on interest rate levels considering the risks inherent in the transaction. There can be no assurance of the accuracy of these estimates. Any appreciation of the Retained Interests is included in the accompanying balance sheet in beneficiaries' equity while any depreciation of our Retained Interests is either included in the accompanying statement of income as either a realized loss (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries' equity as an unrealized loss.

Cash and Cash Equivalents

We generally consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At various times during the year we maintain cash, cash equivalents and restricted investments in accounts in excess of federally insured limits with various financial institutions. We regularly monitor the financial institutions and do not believe a significant credit risk is associated with the deposits in excess of federally insured amounts.

Asset Acquired in Liquidation Held for Sale

Our asset acquired in liquidation held for sale is carried at the lower of cost or estimated fair value of the collateral obtained upon foreclosure of the real estate collateralizing the loan receivable, less selling costs. Our asset acquired in liquidation held for sale is regularly evaluated for impairment.

Deferred Borrowing Costs

Costs incurred in connection with the issuance of notes payable are being amortized to interest expense over the life of the related obligation using the effective interest method.

Interest Income

Interest income includes interest earned on loans and our short-term investments. Interest income on loans is accrued as earned with the accrual of interest generally suspended when the related loan becomes a non-accrual loan. Loans receivable are generally classified as non-accrual (a "Non-Accrual Loan") if (i) they are past due as to payment of principal or interest for a period of more than 60 days, (ii) a loan or a portion of a loan is classified as doubtful or is charged-off or (iii) loans receivable that are current or past due less than 60 days if the repayment in full of principal and/or interest is in doubt. Interest income on a Non-Accrual Loan is recognized on the cash basis and we reverse previously recorded interest income which is deemed uncollectible.

When originating a loan receivable, we charge a commitment fee. These fees, net of costs, are deferred and recognized as an adjustment of yield over the life of the related loan receivable using the effective interest method.

Lease Income

Lease income represents base and percentage rents on our properties. The fixed lease payments are reported as income in accordance with the terms of the lease agreements. In addition, we receive a fixed percentage of the monthly room revenue of our leased properties which is reported as income when earned.

Income from Retained Interests

The income from our Retained Interests is comprised of the yield earned on our Retained Interests which is determined based on estimates of future cash flows and includes any fees collected (*i.e.*, late fees, prepayment fees, etc.) by the SPEs in excess of anticipated fees. We update our cash flow assumptions on a quarterly basis and any changes to cash flow assumptions impact the yield on our Retained Interests.

Income Taxes

We have elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent we qualify for taxation as a REIT, we generally will not be subject to a federal corporate income tax on our taxable income that is distributed to our shareholders. In order to remain qualified as a REIT under the Code, we must satisfy various requirements in each taxable year, including, among others, limitations on share ownership, asset diversification, sources of income, and the distribution of at least 90% of our taxable income within the specified time in accordance with the Code.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-dividend date.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-Lived Assets

Long-lived assets to be held and used and to be disposed of are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable or if depreciation periods should be modified.

If facts or circumstances support the possibility of impairment, we will prepare a projection of the undiscounted future cash flows without interest charges of the specific property and determine if the investment in the property is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment will be made to the carrying value of the property based on the difference between the current estimated fair value and the carrying amount of the asset. No impairment was deemed to exist on our real estate investments held and used at December 31, 2002.

We assess the recoverability of our real estate investments held for sale and assets acquired in liquidation held for sale based on estimated sales values. We assessed impairment for each asset based on the estimated sales price less anticipated selling costs. As of December 31, 2002, we recorded an impairment loss of $54,000 on our asset acquired in liquidation held for sale.

Stock-Based Compensation Plans

At December 31, 2002, we have two stock-based compensation plans, which are described more fully in Note 12. We have accounted for these plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” prospectively to all awards granted, modified, or settled after January 1, 2003. Awards under the plans generally vest immediately.

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period:

	December 31, 2002		December 31, 2001		December 31, 2000	
	As Reported	Pro-Forma	As Reported	Pro-Forma	As Reported	Pro-Forma
	(In thousands, except per share data)					
SFAS No. 123 Charge	$ —	$ 33	$ —	$ 40	$ —	$ 10
APB No. 25 Charge	$ —	$ —	$ —	$ —	$ —	$ —
Net income	$9,936	$9,903	$11,435	$11,395	$9,365	$9,355
Basic earnings per share	$ 1.54	$ 1.54	$ 1.78	$ 1.77	$ 1.44	$ 1.43
Diluted earnings per share	$ 1.54	$ 1.54	$ 1.78	$ 1.77	$ 1.44	$ 1.43

The effects of applying SFAS No. 123 in this pro-forma disclosure are not indicative of future amounts.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and, (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from our estimates. Our most sensitive estimates involve valuing and recording income on the Retained Interests and in determining loan loss reserves for loans receivable.

Recently Issued Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” The statement, which is effective for financial statements issued for fiscal years beginning after May 15, 2002 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result of this rescission, the criteria in APB Opinion No. 30 will now be used to determine the classification of gains and losses resulting from the extinguishment of debt. The statement also amends SFAS No. 13 to require that when a capital lease is modified in such a way that the change in the lease provisions establishes a new lease which is classified as an operating lease, the asset and lease obligation under the capital lease should be removed, a gain or loss for the difference should be recorded and the new lease should be accounted for as an operating lease. The implementation of SFAS No. 145 on January 1, 2003 will not have a material impact on our consolidated financial statements.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2002, SFAS No. 146, “Accounting for Exit or Disposal Activities” was issued. SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of cost associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force has set forth in Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” The scope of SFAS No. 146 also includes (i) costs related to terminating a contract that is not a capital lease and (ii) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred compensation contract. SFAS No. 146 will be effective for financial statements issued for fiscal years beginning after December 15, 2002. The implementation of SFAS No. 146 on January 1, 2003 will not have a material impact on our consolidated financial statements.

FASB issued FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”) in November 2002. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 does not prescribe a specific approach for subsequently measuring the guarantor’s recognized liability over the term of the related guarantee. FIN 45 also incorporates, without change, the guidance in FASB Interpretation No. 34, “Disclosure of Indirect Guarantees of Indebtedness of Others,” which is being superseded. We adopted the disclosure requirements of FIN 45 at December 31, 2002.

In December 2002, SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure” was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 improves the prominence and clarity of the pro-forma disclosures required by SFAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the Summary of Significant Accounting Policies footnote or its equivalent. In addition, SFAS No. 148 improves the timeliness of these disclosures by requiring their inclusion in financial reports for interim periods. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 prospectively to all awards granted, modified or settled after January 1, 2003.

FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB 51” (“FIN 46”) in January 2003. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights, Variable Interest Entities (“VIEs”), and how to determine when and which business enterprise should consolidate the VIE (“the primary beneficiary”). This new model for consolidation applies to an entity which either (i) the equity investors, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity’s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 will not impact our consolidated financial statements since it is not applicable to qualifying SPEs accounted for in accordance with SFAS No. 140.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported net income or total beneficiaries’ equity.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Loans Receivable, net:

Loans receivable, net, consisted of the following:

	December 31,	
	2002	2001
	(In thousands)	
Loans receivable	$72,816	$79,525
Less:		
Deferred commitment fees, net	(459)	(739)
Loan loss reserves	(365)	(300)
Loans receivable, net	$71,992	$78,486

At December 31, 2002 and 2001, respectively, approximately $42.1 million (58%) and $11.5 million (15%) of our loans receivable had a variable interest rate (reset on a quarterly basis) based primarily on LIBOR and $29.9 million (42%) and $67.0 million (85%) had fixed interest rates, respectively. The weighted average interest rate on our variable-rate loans receivable was 5.4% and 6.8% at December 31, 2002 and 2001, respectively. The weighted average interest rate on our fixed-rate loans receivable was 10.4% and 10.1% at December 31, 2002 and 2001, respectively.

Loans receivable with a balance of $1.8 million and $1.4 million at December 31, 2002 and 2001, respectively, have been identified as problem loans or litigation has commenced against the borrowers. At December 31, 2002 and 2001, these loans receivable were current as to payments of principal and interest.

Our loans receivable are 100% concentrated in the hospitality industry at December 31, 2002. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on our financial condition or results of operations. At December 31, 2002, approximately 27% of our loans receivable consisted of loans receivable to borrowers in Texas. No other state had a concentration of 10% or greater at December 31, 2002.

Note 3. Real Estate Investments:

Our real estate investments consist of hospitality properties (the “Hotel Properties”) we purchased in 1998 and 1999 from Arlington Hospitality, Inc. (“Arlington”) under a sale/leaseback agreement (the “Lease Agreement”).

Pursuant to the Lease Agreement, we lease the Hotel Properties to Arlington Inns, Inc., a wholly-owned subsidiary of Arlington, for an initial 10-year period which expires in June 2008, with two renewal options of five years each and a third option for two years which expires in September 2020, and with consumer price index increases up to a maximum of 2% per year. Arlington guarantees the lease payment obligation of Arlington Inns, Inc. Arlington is a public entity that files periodic reports with the Securities and Exchange Commission and additional information about Arlington can be obtained from the SEC’s website at *www.sec.gov* .

As of December 31, 2002, the 2003 annual base rent payment for the Hotel Properties is $5.5 million. In addition to our base rent we receive percentage rent equal to 4% of the gross room revenues of the Hotel Properties.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our real estate investments consisted of the following:

	December 31, 2002		December 31, 2001
	Real Estate Investments	Real Estate Investment Held for Sale	Real Estate Investments
	(Dollars in thousands)		
Land	$ 5,347	$ 263	$ 6,153
Buildings and improvements	42,231	1,682	47,953
Furniture, fixtures and equipment	4,681	214	4,889
	52,259	2,159	58,995
Accumulated depreciation	(7,331)	(282)	(6,277)
	$44,928	$1,877	$52,718
Number of Hotel Properties	21	1	24

The real estate investment held for sale is under contract for approximately $2.2 million pursuant to our Lease Agreement and is expected to be completed prior to June 2003.

Note 4. Retained Interests in Transferred Assets:

In our structured loan sale transactions detailed below, we contributed loans receivable to an SPE in exchange for an ownership interest in that entity. The SPE issued notes payable (the “Structured Notes”) (usually through a private placement) to third parties (“Structured Noteholders”). The SPE then distributed a portion of the proceeds from the Structured Notes to us. The Structured Notes are collateralized solely by the assets of the SPE which means that should the SPE fail to make payments on the Structured Notes, the Structured Noteholders have no recourse to us. Upon the completion of our structured loan sale transactions, we recorded the transfer of loans receivable as a sale since the SPE meets the definition of a qualifying SPE as outlined in SFAS No. 140. As a result, the loans receivable contributed to the SPE, the Structured Notes issued by the SPE, and the operating results of the SPE are not included in our consolidated financial statements. The difference between (i) the carrying value of the loans receivable sold and (ii) the relative fair value of the sum of (a) the cash received and (b) the present value of estimated future cash flows from the Retained Interests, constituted the gain or loss on sale. Retained Interests are carried at estimated fair value, with realized gains and losses recorded in net income and unrealized gains and losses recorded in beneficiaries’ equity.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information pertaining to our structured loan sale transactions was as follows. Amounts represent PMC Commercial's share of the respective Joint Ventures.

	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture
	(Dollars in thousands, except footnotes)		
Transaction date	12/18/00	6/27/01	4/12/02
At inception:			
Principal amount of sold loans	$ 55,675	$ 32,662	$ 27,286
Structured Notes issued	$ 49,550	$ 30,063	$ 24,557
Interest rate on the Structured Notes (fixed)	7.28%	6.36%	6.67%
Structured Notes rating (1)	"Aaa"	"Aaa"	"Aaa"
Weighted average interest rate on loans	9.63%	9.62%	9.23%
Weighted average remaining life (2)	5.16 years	5.15 years	5.38 years
Aggregate losses assumed (3)	2.37%	2.80%	2.88%
Constant prepayment rate assumption (4)	8%	9%	9%
Discount rate assumptions	9.3% to 14.0%	8.5% to 13.3%	8.2% to 12.9%
Net gain recorded (5)	$ 1,117	$ 1,433	$ 562
Value of Retained Interests	$ 11,174	$ 5,871	$ 5,293
At December 31, 2002:			
Principal outstanding on sold loans (6)	$ 49,975	$ 28,951	$ 26,825
Structured Notes balance outstanding	$ 44,572	$ 26,384	$ 24,135
Cash in the collection account	$ 523	$ 282	$ 308
Cash in the reserve account	$ 3,034	$ 1,742	$ 1,614
Weighted average interest rate on loans	9.64%	9.60%	9.23%
Constant prepayment rate assumption (4)	9.5%	9.5%	9.5%
Discount rate assumptions (7)	6.7% to 11.4%	6.7% to 11.4%	7.1% to 11.8%
Weighted average remaining life (2)	4.14 years	5.05 years	5.14 years
Aggregate losses assumed (3)	2.65%	3.38%	3.38%
Aggregate principal losses to date	—%	—%	—%

(1) *Structured Notes issued by the SPEs were rated by Moody's Investors Service, Inc.*

(2) *The weighted average remaining life was calculated by summing the product of (i) the sum of the principal collections expected in each future period multiplied by (ii) the number of periods until collection, and then dividing that total by the (iii) initial or remaining (as applicable) principal balance.*

(3) *Represents aggregate estimated losses as a percentage of the principal outstanding based upon per annum estimated losses that ranged from 0.4% to 0.8%.*

(4) *The prepayment rate was based on anticipated principal prepayments considering the loans sold and other similar loans.*

(5) *The net gain recorded does not include $877,000, $520,000 and $439,000 for the 2000 Joint Venture, the 2001 Joint Venture and the 2002 Joint Venture, respectively, which was deferred and recorded as unrealized appreciation in our beneficiaries' equity in accordance with SFAS No. 140.*

(6) *Approximately 93% concentrated in the hospitality industry, 21% to borrowers in Texas and 10% to borrowers in Arizona. No other state had a concentration of 10% or greater at December 31, 2002.*

(7) *Discount rates utilized were (i) 6.7% to 7.1% for our required overcollateralization, (ii) 8.4% to 8.8% for our reserve funds and (iii) 11.4% to 11.8% for our interest-only strip receivables.*

The value of our Retained Interests is based upon an estimate of the discounted future cash flows we will receive. In determining the present value of expected future cash flows, estimates are made in determining the amount and timing of those cash flows and the discount rates. The amount and timing of cash flows is generally determined based on estimates of loan losses and anticipated prepayment speeds relating to the loans receivable contributed to the SPE. Actual loan losses and prepayments may vary significantly from assumptions. The discount rates that we utilize in computing the estimated fair value are based upon estimates of the inherent risks associated with each cash flow stream. Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of

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our Retained Interests and the limited number of buyers for such assets, no readily ascertainable market exists. Therefore, our estimate of the fair value may or may not vary from what a willing buyer would pay for these assets.

The components of our Retained Interests are as follows:

(1) Our required overcollateralization (the “OC Piece”). The OC Piece represents the excess of the loans receivable contributed to the SPE over the notes payable issued by the SPE and serves as additional collateral for the Structured Noteholders.

(2) The “Reserve Fund” and the interest earned thereon. The Reserve Fund represents cash that is required to be kept in a liquid cash account by the SPE as collateral for the Structured Noteholders, a portion of which was contributed by us to the SPE upon formation and a portion which is built up over time by the SPE from the cash flows of the underlying loans receivable.

(3) The interest-only strip receivable (the “IO Receivable”). The IO Receivable is comprised of the cash flows that will be received by us in the future after payment by the SPE of (a) all interest and principal due to the Structured Noteholders, (b) all principal and interest due on the OC Piece, (c) any required funding of the Reserve Fund and (d) on-going costs of the transaction.

Our Retained Interests consisted of the following:

	December 31, 2002				
	Value				
	OC Piece	Reserve Fund	IO Receivable	Total	Cost
			(In thousands)		
2002 Joint Venture	$ 3,180	$1,261	$1,351	$ 5,792	$ 5,064
2001 Joint Venture	3,168	1,391	2,106	6,665	5,373
2000 Joint Venture	6,549	2,464	2,062	11,075	9,312
	$12,897	$5,116	$5,519	$23,532	$19,749

	December 31, 2001				
	Value				
	OC Piece	Reserve Fund	IO Receivable	Total	Cost
			(In thousands)		
2001 Joint Venture	$2,882	$1,354	$2,065	$ 6,301	$ 5,709
2000 Joint Venture	6,301	2,425	2,739	11,465	9,872
	$9,183	$3,779	$4,804	$17,766	$15,581

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The following is a sensitivity analysis of our Retained Interests at December 31, 2002 to highlight the volatility that results when prepayments, loan losses and discount rates are different than assumptions:

Changed Assumption	Pro-Forma Value	Asset Change
	(In thousands)	
Losses increase by 50 basis points per annum (1)	$21,751	($1,781)
Losses increase by 100 basis points per annum (1)	$20,040	($3,492)
Rate of prepayment increases by 5% per annum (2)	$22,714	($ 818)
Rate of prepayment increases by 10% per annum (2)	$22,178	($1,354)
Discount rates increase by 100 basis points	$22,481	($1,051)
Discount rates increase by 200 basis points	$21,500	($2,032)

(1) If we experience losses (i.e., in excess of anticipated losses), the effect on our Retained Interests would first reduce the value of our IO Receivables. To the extent the IO Receivables could not fully absorb the losses, the effect would then be to reduce the value of our Reserve Funds and then the value of our OC Pieces.

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

These sensitivities are hypothetical and should be used with caution. Pro-forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of our Retained Interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

The following information summarizes the financial position of the Joint Ventures at December 31, 2002 and 2001. We owned approximately 66% of the 2000 Joint Venture, 39% of the 2001 Joint Venture and 39% of the 2002 Joint Venture as of December 31, 2002. We owned approximately 67% of the 2000 Joint Venture and 41% of the 2001 Joint Venture as of December 31, 2001.

Summary of Financial Position (1)

	2000 Joint Venture		2001 Joint Venture		2002 Joint Venture
	2002	2001	2002	2001	2002
			(In thousands)		
Loans Receivable, Net	$70,627	$79,695	$73,220	$78,177	$69,025
Asset Acquired in Liquidation, Net	$ 1,411	$ —	$ —	$ —	$ —
Total Assets	$76,434	$85,716	$81,302	$83,600	$74,322
Notes Payable	$62,658	$71,100	$69,146	$71,768	$62,152
Total Liabilities	$62,848	$71,316	$69,329	$71,958	$62,325
Partners' Capital	$13,586	$14,400	$11,973	$11,642	$11,997

(1) Balances represent 100% of the limited partnership interests for the Joint Ventures.

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The following information summarizes the results of operations for the Joint Ventures.

Results of Operations (1)

	2000 Joint Venture			2001 Joint Venture		2002 Joint Venture
	2002	2001	2000 (2)	2002	2001 (3)	2002 (4)
	(In thousands)					
Interest Income	$7,092	$7,936	$295	$7,507	$4,028	$4,850
Total Revenues	$7,351	$8,169	$298	$7,815	$4,222	$4,897
Interest Expense	$4,988	$5,277	$181	$4,463	$2,387	$2,999
Provision for Losses	$1,514	$ —	$ —	$ 140	$ —	$ —
Total Expenses	$6,752	$5,526	$181	$4,849	$2,507	$3,153
Net Income	$ 599	$2,643	$117	$2,966	$1,715	$1,744

(1) Amounts represent 100% of the limited partnership interests for the Joint Ventures.

(2) From December 18, 2000 to December 31, 2000

(3) From June 27, 2001 to December 31, 2001

(4) From April 12, 2002 to December 31, 2002

Our ownership of the Joint Ventures is based on our share of the capital of the respective Joint Ventures. Our share of the cash flows from the Joint Ventures is allocated based on the cash flows from the underlying loans receivable contributed by us to the respective Joint Venture less allocated costs based on the remaining principal on the underlying loans receivable contributed by us divided by all loans receivable held by the respective Joint Venture.

Our limited partnership allocation of the assets, liabilities and partners’ capital of the Joint Ventures was as follows:

	December 31, 2002			December 31, 2001	
	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture	2000 Joint Venture	2001 Joint Venture
	(In thousands)				
Loans Receivable, Net	$49,844	$28,951	$26,825	$53,083	$29,529
Assets	$53,707	$31,070	$28,838	$57,127	$31,678
Liabilities	$44,707	$26,454	$24,202	$47,506	$27,025
Partners’ Capital	$ 9,000	$ 4,616	$ 4,636	$ 9,621	$ 4,653

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Our limited partnership allocation of the net income of the Joint Ventures was as follows:

	2000 Joint Venture			2001 Joint Venture		2002 Joint Venture
	2002	2001	2000 (1)	2002	2001 (2)	2002 (3)
	(In thousands)					
Net Income	$1,501	$1,887	$71	$1,072	$743	$675

(1) From December 18, 2000 to December 31, 2000

(2) From June 27, 2001 to December 31, 2001

(3) From April 12, 2002 to December 31, 2002

In accordance with SFAS No. 140, our consolidated financial statements do not include the assets, liabilities, partners' capital, revenues or expenses of the Joint Ventures. As a result, at December 31, 2002 and 2001 our consolidated balance sheets do not include the $113.6 million and $88.8 million in assets, respectively, and $95.4 million and $74.5 million in liabilities, respectively, related to these structured loan sale transactions recorded by our SPEs. Our Retained Interests related to these structured loan sale transactions were $23.5 million and $17.8 million at December 31, 2002 and 2001, respectively, including unrealized appreciation of $3.8 million and $2.2 million, respectively.

The income from our Retained Interests is comprised of the yield earned on our Retained Interests which is determined based on estimates of future cash flows and includes any fees collected (*i.e.*, late fees, prepayment fees, etc.) by the SPEs in excess of anticipated fees. We update our cash flow assumptions on a quarterly basis and any changes to cash flow assumptions impact the yield on our Retained Interests. The annualized yield on our Retained Interests was 13.2% and 12.7% during 2002 and 2001, respectively. Our first structured loan sale transaction was completed on December 18, 2000; therefore, we had minimal income of $73,000 during 2000.

PMC Capital is the servicer for all loans receivable held by the Joint Ventures; therefore, no servicing fees were earned or received by us during 2002, 2001 or 2000.

Pursuant to the trust indentures related to the Structured Notes, we recorded approximately $3.8 million and $2.4 million in cash distributions from the Joint Ventures during 2002 and 2001, respectively.

Note 5. Restricted Investments:

Restricted investments consisted of the following:

	December 31,	
	2002	2001
	(In thousands)	
Structured noteholders reserve account	$1,908	$2,375
Escrow and capital expenditures accounts	1,981	1,948
Structured noteholders collection account	1,625	771
Other	100	112
	$5,614	$5,206

The structured noteholders reserve and collection accounts represent cash collected that has not yet been remitted to the structured noteholders and reserve account balances that are required to be held as collateral on behalf of the structured noteholders. The collection and reserve accounts consist of cash and liquid money market funds.

The escrow and capital expenditures accounts represent restricted investments maintained pursuant to our Lease Agreement. The escrow account includes a deposit of two months' base rent. In accordance with the terms of the Lease Agreement, we deposit the percentage of rent received into a capital expenditures account for future capital expenditures required to maintain the real estate investments. Funds are released from this account when capital expenditures are incurred.

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Note 6. Notes Payable and Revolving Credit Facility

Structured Notes Payable

In June 1998, we formed a bankruptcy remote partnership that completed a private placement of $66.1 million of fixed-rate loan-backed notes, (the “Structured Notes”). The Structured Notes mature in May 2019, bear interest at 6.37% per annum and are collateralized by a portion of our loans receivable that we contributed to the partnership. At December 31, 2002 and 2001, the principal amount of the underlying loans receivable was $30.7 million and $39.4 million, respectively. PMC Commercial has no obligation to pay the Structured Notes nor do the holders of the Structured Notes have any recourse against PMC Commercial’s assets. Accordingly, if the partnership fails to pay the Structured Notes, the sole recourse of the holders of the Structured Notes is against the assets of the partnership. The principal amount of the Structured Notes outstanding at December 31, 2002 and 2001 was $26.0 million and $33.8 million, respectively. Maturities of these notes are dependent upon the cash flows received from the underlying loans receivable. Repayment of the Structured Notes is based on scheduled payments on the underlying loans receivable, is as follows:

Year Ending December 31,	Amount
	(In thousands)
2003	$ 1,211
2004	1,342
2005	1,487
2006	1,649
2007	1,828
Thereafter	18,485
	$26,002

Actual repayments will differ materially from these amounts to the extent we receive prepayments or defaults occur on the underlying loans receivable.

Mortgage Notes Payable

We have entered into seven mortgage notes payable, each collateralized by a Hotel Property. The mortgage notes payable have a weighted average interest rate of 7.4%, mature between 2004 and 2019 and have amortization periods of 20 years. At December 31, 2002 and 2001, the balances outstanding on these obligations were $8.9 million and $8.1 million, respectively.

We have mortgage notes payable related to four Hotel Properties with a weighted average interest rate of approximately 8.0%. These mortgages are amortized over 20 years, mature from 2010 to 2017 and have restrictive provisions which provide for substantial prepayment penalties. These mortgage notes payable are obligations of our subsidiaries. At December 31, 2002 and 2001, the balances outstanding on these mortgage notes payable were $6.3 million and $6.5 million, respectively, of which $3.4 million and $3.5 million, respectively, was guaranteed by PMC Commercial.

Principal payments required on our mortgage notes payable are as follows:

Year Ending December 31,	Amount
	(In thousands)
2003	$ 480
2004	5,760
2005	1,281
2006	357
2007	387
Thereafter	6,923
	$15,189

Revolving Credit Facility

We have a revolving credit facility which provides funds to originate loans collateralized by commercial real estate. The revolving credit facility, as amended, provides us with credit availability up to $30 million at December 31, 2002. Subsequent to year-end, the facility was increased to $35 million. The facility will be reduced to $30 million upon the earlier of the completion of a securitization or June 30, 2003. The maximum amount (the “Borrowing Base”) that we can have outstanding at any time is based on our eligible loans receivable used as collateral. The Borrowing Base available on each loan receivable is the lesser of (a) 60% of the appraised value of the project underlying the loan receivable collateralizing the borrowing or (b) 85% of the amount of the loan receivable outstanding. At December 31, 2002, based on our eligible loans receivable, our Borrowing Base was $28.5 million. To the extent these borrowings are reinvested in eligible loans receivable, our Borrowing Base will increase (based on the calculation above) and, based on anticipated future lending activities, we anticipate that we would be able to fully access our $30 million revolving credit facility. We are charged interest on the balance outstanding under the credit facility at our election of either the prime rate of the lender or 162.5 basis points over the 30, 60 or 90-day LIBOR. At December 31, 2002, we had $7.3 million outstanding under this facility with interest based on the prime rate and LIBOR. The weighted average interest rate on our Revolver at December 31, 2002 and 2001 was 3.1% and 3.6%, respectively. At December 31, 2001, we had $8.7 million outstanding under this facility. The credit facility requires us to meet certain covenants, the most restrictive of which provides that the ratio of total liabilities to net worth will not exceed 2.0 times. The facility matures in May 2004. At December 31, 2002 we were in compliance with all covenants of this facility. We had $12.8 million outstanding under this facility as of February 28, 2003.

Note 7. Dividends Paid and Declared:

In April, July and October 2002, we paid quarterly dividends of $0.40 per share to common shareholders of record on March 28, 2002, June 28, 2002 and September 30, 2002, respectively. The Board of Trust Managers declared a $0.40 per share quarterly dividend and a $0.02 per share special dividend to common shareholders of record on December 31, 2002, which were paid on January 13, 2003. Dividends declared for the years ended December 31, 2002 and 2001 were $1.62 per share and $1.52 per share, respectively.

Note 8. Taxable Income:

As a REIT, we generally will not be subject to corporate level Federal income tax on net income we currently distribute to shareholders. As such, no provision for Federal income taxes has been included in the accompanying consolidated financial statements. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. We may, however, be subject to certain Federal excise taxes and state and local taxes on our income and property.

We may make an election under the Code to treat distributions declared in the current year as distributions of the prior year’s taxable income. Upon election, the Code provides that, in certain circumstances, a dividend declared subsequent to the close of an entity’s taxable year and prior to the extended due date of the entity’s tax return may be considered as having been made in the prior tax year in satisfaction of income distribution requirements. Having met these requirements, we elected on our 2001 tax return to apply approximately $1.5 million of 2002 distributions to the 2001 tax year and anticipate utilizing a portion of 2003 distributions to meet our 2002 distribution requirement.

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The following reconciles net income available to common shareholders to taxable income available to common shareholders:

	Years Ended December 31,		
	2002	2001	2000
		(In thousands)	
Net income available to common shareholders	$ 9,936	$11,435	$ 9,365
Add: Book depreciation and amortization	1,903	2,159	2,250
Less: Tax depreciation and amortization	(1,769)	(2,147)	(2,324)
Book/tax difference on gains on sales	(550)	(1,433)	(1,221)
Book/tax difference on Retained Interests, net	486	813	—
Other book/tax differences, net	49	365	(42)
Taxable income available to common shareholders	$10,055	$11,192	$ 8,028
Distributions to common shareholders	$10,440	$ 9,789	$11,367

Dividends per share for dividend reporting purposes were as follows:

	Years Ended December 31,					
	2002		2001		2000	
	Amount Per Share	Percent	Amount Per Share	Percent	Amount Per Share	Percent
Ordinary income	$1.517	93.67%	$1.309	86.09%	$1.289	73.88%
Return of capital	—	—	—	—	0.393	22.53%
Capital gains	0.103	6.33%	0.211	13.91%	0.063	3.59%
	$1.620	100.00%	$1.520	100.00%	$1.745	100.00%

Note 9. Discontinued Operations:

Effective January 1, 2002, we adopted SFAS No. 144, “Accounting for the Impairment of or Disposal of Long-Lived Assets”. In accordance with SFAS No. 144, the operations of our hotel properties either sold during 2002 or held for sale at December 31, 2002 have been reflected as discontinued operations in our accompanying consolidated statements of income (three properties in total) and the prior period financial statements have been reclassified to reflect the operations of these properties as discontinued operations during 2001 and 2000. SFAS No. 144 does not allow for reclassification of prior period gains and operations of properties sold prior to January 1, 2002.

At December 31, 2002, one hotel property is classified as real estate investment held for sale, net on our accompanying consolidated balance sheet. The sale of this hotel property is expected to be completed prior to June 2003. The real estate investment held for sale is under contract for approximately $2.2 million.

During 2002, we sold two hotel properties for approximately $5.2 million and recognized gains of approximately $663,000. We provided financing of $2.0 million for one of the hotel property sales.

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Discontinued operations of the three hotel properties consisted of the following:

	Years Ended December 31,		
	2002	2001	2000
		(In thousands)	
Lease income	$398	$ 767	$ 737
Advisory fees	(25)	(49)	(49)
Depreciation	(58)	(243)	(223)
Net earnings	315	475	465
Gain on sale of real estate investments	663	—	—
Discontinued operations	$978	$ 475	$ 465

Note 10. Earnings Per Share:

The weighted average number of Common Shares outstanding were 6,444,371, 6,431,461, and 6,519,590 for the years ended December 31, 2002, 2001 and 2000, respectively. For purposes of calculating diluted earnings per share, the weighted average shares outstanding were increased by approximately 11,700; 11,600; and 300 shares for the dilutive effect of stock options during 2002, 2001 and 2000, respectively.

For purposes of calculating earnings per share, the gain on sale of assets of $562,000, $2,783,000 and $1,421,000 for the years ended December 31, 2002, 2001 and 2000, respectively, has been combined with income from continuing operations.

Options to purchase 57,600, 155,600 and 183,711 Common Shares were outstanding during 2002, 2001 and 2000, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Common Shares.

Note 11. Dividend Reinvestment and Cash Purchase Plan:

We have a dividend reinvestment and cash purchase plan (the "Plan"). Participants in the Plan have the option to reinvest all or a portion of dividends received. The purchase price of the Common Shares is 100% of the average of the closing price of the Common Shares as published for the five trading days immediately prior to the dividend record date or prior to the optional cash payment purchase date, whichever is applicable. The optional cash purchase plan was suspended during January 2000. In addition, since January 2000 we have been using the open market to purchase Common Shares with proceeds from the dividend reinvestment portion of the Plan. Accordingly, there were no plan shares issued during 2002, 2001 and 2000.

Note 12. Stock-Based Compensation Plans:

We have applied Accounting Principles Board Opinion No. 25 ("APB No. 25") and related interpretations in accounting for our stock-based compensation plans. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 prospectively to all awards granted, modified or settled after January 1, 2003.

We have two stock-based compensation plans, the 1993 Employee Share Option Plan (the "Employee Plan") and the Trust Manager Share Option Plan (the "Trust Manager Plan"), referred to collectively as the "Stock Option Plans." The Stock Option Plans provide that the exercise price of any stock option may not be less than the fair market value of our Common Stock on the date of grant. We have discretion in determining the vesting terms applicable to stock options granted under the Employee Plan; however, generally all options vest immediately. Pursuant to the Employee Plan, we are authorized to grant stock options up to an aggregate of 6% of the total number of Common Shares outstanding at any time (a maximum of approximately 387,000 shares at December 31, 2002) as incentive stock options (intended to qualify under Section 422 of the Code) or as options that are not intended to qualify as incentive stock options.

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Only the trust managers who are not employees of PMC Capital or the Investment Manager (the "Non-employee Trust Managers") are eligible to participate in the Trust Managers Plan. The Trust Managers Plan is a nondiscretionary plan pursuant to which options to purchase 2,000 Common Shares are granted to each Non-employee Trust Manager on the date such trust manager takes office. In addition, options to purchase 1,000 shares are granted on June 1 of each year. Such options will be exercisable at the fair market value of the shares on the date of grant. The options granted under the Trust Managers Plan become exercisable one year after date of grant and expire if not exercised on the earlier of (i) 30 days after the option holder no longer holds office as an Non-employee Trust Manager for any reason or (ii) within five years after date of grant. We issued 5,000 options under the Trust Managers Plan during each of the three years in the period ended December 31, 2002.

A summary of the status of our stock options as of December 31, 2002, 2001 and 2000 and the changes during the years ended on those dates are as follows:

	2002		2001		2000	
	Number of Shares Underlying Options	Weighted Average Exercise Prices	Number of Shares Underlying Options	Weighted Average Exercise Prices	Number of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding, January 1	202,976	$15.28	233,561	$14.81	188,261	$16.41
Granted	54,800	$13.29	52,400	$13.16	54,850	$ 9.38
Exercised	(5,000)	$12.80	(50,474)	$ 9.40	—	—
Forfeited	(600)	$18.63	(7,850)	$18.33	(5,450)	$18.55
Expired	(47,750)	$19.78	(24,661)	$16.73	(4,100)	$15.87
Outstanding, December 31	204,426	$13.86	202,976	$15.28	233,561	$14.81
Exercisable, December 31	199,426	$13.83	197,976	$15.28	228,561	$14.82
Weighted-average fair value of stock options granted during the year	$ 0.60		$ 0.75		$ 0.10	

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 2002, 2001 and 2000:

	Years Ended December 31,		
	2002	2001	2000
Assumption:			
Expected Term (years)	3.0	3.0	3.0
Risk-Free Interest Rate	2.33%	3.88%	5.87%
Expected Dividend Yield	12.20%	11.55%	19.64%
Expected Volatility	22.61%	22.61%	17.14%

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable at 12/31/02	Weighted Average Exercise Price
$9.25 to $11.19	48,626	2.1	$11.02	48,626	$11.02
$11.20 to $14.90	108,200	4.3	$13.29	103,200	$13.22
$14.91 to $19.88	47,600	0.9	$18.03	47,600	$18.03
$9.25 to $19.88	204,426	3.0	$13.86	199,426	$13.83

Note 13. Fair Values of Financial Instruments:

The estimates of fair value as required by SFAS No. 107 differ from the carrying amounts of the financial assets and liabilities primarily as a result of the effects of discounting future cash flows. Considerable judgment is required to interpret market data and develop estimates of fair value. Accordingly, the estimates presented below may not be indicative of the amounts we could realize in a current market exchange.

The estimated fair values of our financial instruments were as follows:

	Years Ended December 31,			
	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Assets:				
Loans receivable, net	$71,992	$72,451	$78,486	$79,225
Retained Interests	23,532	23,532	17,766	17,766
Cash and cash equivalents	49	49	557	557
Restricted investments	5,614	5,174	5,205	4,608
Liabilities:				
Notes payable	41,191	43,520	48,370	48,481
Revolving credit facility	7,300	7,300	8,700	8,700

Loans receivable, net: We estimate the fair value of loans receivable to approximate the remaining unamortized principal of the loans receivable, unless there is doubt as to realization of a loan receivable. A valuation reserve is established for a problem loan based on the creditor’s payment history, collateral value, guarantor support and other factors. In the absence of a readily ascertainable market value, the estimated value of our loans receivable may differ from the values that would be placed on the loan portfolio if a ready market for the loans receivable existed.

Retained Interests : The assets are reflected in our consolidated financial statements at estimated fair value based on valuation techniques as described in Note 4.

Cash and cash equivalents: The carrying amount is a reasonable estimation of fair value due to the short maturity of these instruments.

Restricted investments: The fair value of the reserve fund associated with the 1998 structured loan financing transaction is estimated by utilizing discounted cash flow techniques based on management’s estimates of market rates including risks inherent in the transaction. The carrying amount of the remaining restricted investments is a reasonable estimate of fair value due to the short maturity of these instruments.

Notes payable: The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

Revolving credit facility: The carrying amount is a reasonable estimation of fair value as the interest rate on this instrument is a variable rate of interest.

Note 14. Related Party Transactions:

Our loans receivable are originated and serviced by PMC Advisers pursuant to an Investment Management Agreement (the “IMA”). Property acquisitions are supervised pursuant to a separate agreement with PMC Advisers (the “Lease Supervision Agreement” and together with the IMA, the “Advisory Agreements”). Both agreements are renewable on an annual basis. PMC Advisers also earns fees for its assistance in the issuance of our debt and equity securities. We are managed by the same executive officers as PMC Capital and PMC Advisers. Three of our trust managers are directors or officers of PMC Capital.

During 2002 and 2001, pursuant to the IMA we were charged fees between 0.40% and 1.55% annually, based on the average principal outstanding of our loans receivable. Through June 20, 2000, we were charged an annual fee between 0.40% and 1.67%, based on the average principal outstanding of our loans receivable. The maximum fee was reduced from 1.67% to 1.55% commencing July 1, 2000. In addition, PMC Advisers earns fees for its assistance with the issuance of our debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by us pursuant to the public offering or private placement of our common shares, and (ii) 50% of any issuance or placement fees incurred by us pursuant to the issuance of our debt securities or preferred shares of beneficial interest. The IMA also provides for a fee of $10,000 upon the sale of each Hotel Property and an annual loan origination fee equal to five basis points for the first $20 million of loans funded and 2.5 basis points thereafter. In the event the IMA agreement with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by us in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average invested assets) multiplied by the average invested assets at the date of termination.

The Lease Supervision Agreement provides for an annual fee of 0.70% of the original cost of the Hotel Properties to be paid to PMC Advisers for providing services relating to the leases on the Hotel Properties. In addition, the Lease Supervision Agreement provides for a fee in connection with the acquisition of properties of 0.75% of the acquisition cost. In the event the Lease Supervision Agreement with PMC Advisers is terminated or not renewed by us (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by us), PMC Advisers would be entitled to receive the Lease Supervision Fee for a period of five years from the termination date.

Fees associated with the Advisory Agreements consisted of the following:

	Years Ended December 31,		
	2002	2001	2000
		(In thousands)	
Lease supervision fee	$ 381	$ 441	$ 500
Investment management fee	1,927	1,803	1,699
Total fees incurred	2,308	2,244	2,199
Less:			
Management fees included in discontinued operations	(25)	(49)	(49)
Fees incurred by the SPEs	(298)	(198)	—
Cost of structured loan sale transactions	(57)	(60)	(100)
Fees capitalized as cost of originating loans	(135)	(208)	(145)
Advisory and servicing fees to affiliate, net	$1,793	$1,729	$1,905

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Selected Quarterly Financial Data: (unaudited)

The following represents our selected quarterly financial data which, in the opinion of management, reflects adjustments (comprising only normal recurring adjustments) necessary for fair presentation.

	For the year ended December 31, 2002			
	Revenues	Income From Continuing Operations	Net Income	Earnings Per Share
	(In thousands, except earnings per share and footnotes)			
First Quarter	$ 4,286	$2,199	$2,648(1)	$0.41(1)
Second Quarter	4,137	2,240	3,164(2)	0.49(2)
Third Quarter	3,866	2,110	2,164	0.34
Fourth Quarter	3,747	1,847	1,960	0.30
	$16,036	$8,396	$9,936	$1.54

	For the year ended December 31, 2001			
	Revenues	Income From Continuing Operations	Net Income	Earnings Per Share
	(In thousands, except earnings per share and footnotes)			
First Quarter	$ 4,210	$2,225	$ 2,807(3)	$0.44(3)
Second Quarter	4,291	1,971	$ 3,849(4)	0.60(4)
Third Quarter	3,835	1,889	$ 2,536(5)	0.39(5)
Fourth Quarter	4,071	2,092	$ 2,243	0.35
	$16,407	$8,177	$11,435	$1.78

(1) *Includes a gain of $371,000 from the sale of a hotel property.*

(2) *Includes a gain of $562,000 relating to our structured loan sale transaction and a gain of $292,000 from the sale of a hotel property.*

(3) *Includes a gain of $502,000 from the sale of a hotel property.*

(4) *Includes a gain of $1,433,000 relating to our structured loan sale transaction and a gain of $322,000 from the sale of a hotel property.*

(5) *Includes a gain of $526,000 from the sale of a hotel property.*

Note 16. Commitments and Contingencies:

Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. At December 31, 2002, we had approximately $40.9 million of total loan commitments outstanding. All of these commitments were for variable-rate loans based on LIBOR at spreads ranging from 3.50% to 4.25% over the 90-day LIBOR. The weighted average interest rate on our loan commitments at December 31, 2002 was 5.6%. Commitments generally have fixed expiration dates and require payment of a fee to us. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Pursuant to our investment management agreements, if we do not have funds available for our commitments, these commitments will be referred back to PMC Advisers.

Pursuant to the trust indenture for our structured loan financing completed in 1998 which is not treated as a sale for financial reporting purposes, distributions of its net assets are limited and restricted. The required reserve amount ($1.9 million at December 31, 2002), included in restricted investments on our consolidated balance sheets, is calculated as follows: the outstanding principal balance of the underlying loans receivable which are delinquent 180 days or more plus the greater of 6% of the current outstanding principal balance of the underlying loans receivable or 2% of the underlying loans receivable of the 1998 structured loan financing transaction at inception ($1.4 million). As of December 31, 2002 and 2001, none of the loans receivable in the 1998 structured loan financing transaction were delinquent 180 days or more.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance by either PMC Capital or PMC Commercial's sold loans receivable (the "Underperforming Company") is pervasive enough to cause the other company (the "Performing Company") to not receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. As a result of the Credit Enhancement Provisions described below, PMC Commercial had a cash flow deferral, and was paid compensation by PMC Capital of less than $1,000. If the reduction of cash flows is deemed permanent, (*i.e.*, to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets they have contributed to the related structured loan sale transaction), the reduction in cash flows must be paid to the Performing Company by the Underperforming Company. At December 31, 2002, the maximum potential amount of future payments to PMC Capital (undiscounted and without consideration of any recoveries from the underlying loans receivable) we could be required to make under these cross indemnification agreements was approximately $36.3 million and the discounted amount was $25.2 million which represents the estimated fair value of the Retained Interests reflected on PMC Capital's consolidated balance sheet for the Joint Ventures. All of our loans are collateralized; however, the maximum potential amount of future payments we could be required to make under these cross indemnification agreements has not considered any proceeds from the liquidation of collateral underlying these loans. Upon completion of a joint securitization and on each subsequent quarterly reporting date, management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on our present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by us will cause any permanent cash flow reductions to PMC Capital nor will the loans receivable sold by PMC Capital cause any permanent cash flow reductions to us. Accordingly, we believe that the fair value of the cross indemnification agreements at inception of the Joint Ventures and as of December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of our sold loans receivable deteriorates, it may be necessary for us to perform under these cross indemnification agreements.

When our structured loan sale transactions were completed, the transaction documents that the SPE entered into contained provisions (the "Credit Enhancement Provisions") that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transactions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed, which would delay or reduce our distribution. As a result of the problem loans in the 2000 Joint Venture (contributed by PMC Capital), a Credit Enhancement Provision was triggered in November 2002. As a consequence, some of our cash flows relating to this transaction were deferred and utilized to fund the increased reserve requirements. Our cash flow deferral at December 31, 2002 and February 28, 2003 was approximately $270,000 and $582,000, respectively. Based on current cash flow assumptions, management anticipates that these funds will be received in future periods.

In the normal course of business, we are subject to various proceedings and claims, the resolution of which will not, in management's opinion, have a material adverse effect on our financial position or results of operations.

Note 17. Business Segments:

Operating results and other financial data are presented for our principal business segments. These segments are categorized by line of business which also corresponds to how they are operated. The segments include (i) the Lending Division, which originates loans receivable to small businesses primarily in the hospitality industry and (ii) the Property Division which owns the Hotel Properties.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our business segment data as of December 31, 2002, 2001 and 2000 and for the years ended December 31, 2002, 2001 and 2000 is as follows:

	Years Ended December 31,					
	2002			2001		
	(In thousands)					
	Total	Lending Division	Property Division	Total	Lending Division	Property Division
Revenues:						
Interest income — loans and other income	$ 7,400	$ 7,400	$ —	$ 8,321	$ 8,321	$ —
Lease income	5,743	—	5,743	6,271	—	6,271
Income from retained interests in transferred assets	2,893	2,893	—	1,815	1,815	—
Total	16,036	10,293	5,743	16,407	10,136	6,271
Expenses:						
Interest (1)	3,445	1,898	1,547	4,020	2,463	1,557
Depreciation	1,845	—	1,845	1,858	—	1,858
Advisory and servicing fees to affiliate, net	1,793	1,437	356	1,729	1,337	392
Impairment loss on assets held for sale	54	54	—	—	—	—
Realized losses on retained interests in transferred assets	53	53	—	81	81	—
Provision for loan losses	65	65	—	200	200	—
Other	385	367	18	342	332	10
Total	7,640	3,874	3,766	8,230	4,413	3,817
Income from continuing operations	8,396	6,419	1,977	8,177	5,723	2,454
Discontinued operations:						
Gain on sale of real estate investments	663	—	663	—	—	—
Net earnings	315	—	315	475	—	475
	978	—	978	475	—	475
Gain on sale of assets:						
Gain on sale of real estate investments	—	—	—	1,350	—	1,350
Gain on sale of loans receivable	562	562	—	1,433	1,433	—
	562	562	—	2,783	1,433	1,350
Net income	$ 9,936	$ 6,981	$2,955	$11,435	$ 7,156	$4,279
Additions to real estate investments	$ 388	$ —	$ 388	$ 490	$ —	$ 490

	As of December 31,					
	2002			2001		
	(In thousands)					
Total assets	$149,698	$100,717	$48,981	$156,347	$101,480	$54,867

(1) Interest expense specifically identified to a particular division is allocated to that division. Interest expense which is not specifically allocable is allocated based on the relative total assets of each division.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31, 2000		
	Total	Lending Division	Property Division
	(In thousands)		
Revenues:			
Interest income — loans and other portfolio income	$ 12,121	$12,121	$ —
Lease income	6,844	—	6,844
Income from retained interests in transferred assets	73	73	—
Total	19,038	12,194	6,844
Expenses:			
Interest (1)	6,782	4,231	2,551
Depreciation	2,027	—	2,027
Advisory and servicing fees to affiliate, net	1,905	1,454	451
Provision for loan losses	600	600	—
Other	245	227	18
Total	11,559	6,512	5,047
Income from continuing operations	7,479	5,682	1,797
Discontinued operations:			
Gain on sale of real estate investments	—	—	—
Net earnings	465	—	465
	465	—	465
Gain on sale of assets:			
Gain on sale of real estate investments	304	—	304
Gain on sale of loans receivable	1,117	1,117	—
	1,421	1,117	304
Net income	$ 9,365	$ 6,799	$ 2,566
Additions to real estate investments	$ —	$ —	$ —
	December 31, 2000		
	(In thousands)		
Total assets	$151,399	$83,257	$68,142

(1) Interest expense specifically identifiable to a particular division is allocated to that division. Interest expense which is not specifically identifiable is allocated based on the relative total assets of each division.

Note 18. Subsequent Events:

On March 27, 2003, we entered into an Agreement and Plan of Merger with PMC Capital. Under the terms of the merger agreement, PMC Capital will be merged into PMC Commercial, with PMC Commercial continuing as the surviving entity. Each issued and outstanding share of PMC Capital common stock will be converted into 0.37 of a common share of PMC Commercial. The merger has been recommended by each company's special committee and approved by the Board of Trust Managers of PMC Commercial and the Board of Directors of PMC Capital. In addition, the boards and management of each company have entered into voting agreements pursuant to which they have agreed to vote their shares in favor of the merger and related transactions. Completion of the merger, which is expected to occur in the fourth quarter of 2003, is subject to approval by the shareholders of PMC Commercial and PMC Capital, certain governmental consents and customary closing conditions.

During March 2003, we declared a $0.40 per share dividend to common shareholders of record on March 31, 2003, to be paid on April 14, 2003.

Report of Independent Accountants on Financial Statement Schedules

To the Board of Trust Managers of
PMC Commercial Trust:

Our audits of the consolidated financial statements referred to in our report dated March 11, 2003, except for Note 18, as to which the date is March 27, 2003, appearing on page F-2 of the 2002 Form 10-K also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Dallas, Texas
March 11, 2003, except for Note 18,
as to which the date is March 27, 2003

Schedule III
PMC COMMERCIAL TRUST AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2002
(In thousands)

		Initial Cost			Cost Capitalized Subsequent To Acquisition			Gross Amounts at Which Carried at Close of Period (1)			
Description of Property	**Encumbrances**	**Land**	**Building and Improvements**	**Furniture and Fixtures**	**Land**	**Building and Improvements**	**Furniture and Fixtures**	**Land**	**Building and Improvements**	**Furniture and Fixtures**	**Total**
The following are all hotel properties operating as Amerihost Inns											
Ashland, OH	$ —	$ 215	$ 2,626	$ 185	$—	$ 5	$ 35	$ 215	$ 2,631	$ 220	$ 3,066
Coopersville ,MI	1,375	242	1,999	180	—	4	62	242	2,003	242	2,487
Eagles Landing, GA	—	325	1,815	180	—	4	10	325	1,819	190	2,334
Grand Rapids-N, MI	1,586	221	2,323	180	—	5	37	221	2,328	217	2,766
Grand Rapids-S, MI	1,517	368	2,173	183	—	4	49	368	2,177	232	2,777
Jackson, TN	—	403	1,936	183	—	4	30	403	1,940	213	2,556
LaGrange, GA	—	263	1,679	177	—	3	37	263	1,682	214	2,159
McKinney, TX	—	273	2,066	183	—	4	31	273	2,070	214	2,557
Monroe, MI	—	273	2,060	189	—	4	96	273	2,064	285	2,622
Mosinee, WI	1,116	140	1,416	159	—	3	46	140	1,419	205	1,764
Mt. Pleasant, IA	1,008	179	1,851	189	—	4	52	179	1,855	241	2,275
Port Huron, MI	—	263	2,076	183	—	4	28	263	2,080	211	2,554
Rochelle, IL	921	221	2,017	183	—	4	17	221	2,021	200	2,442
Smyrna, GA	—	290	1,749	180	—	4	30	290	1,753	210	2,253
Storm Lake, IA	1,383	220	1,716	183	—	3	12	220	1,719	195	2,134
Tupelo, MS	—	236	1,901	183	—	4	10	236	1,905	193	2,334
Wooster — E, OH	—	171	1,673	174	—	3	50	171	1,676	224	2,071
Wooster — N, OH	—	263	1,575	229	—	7	36	263	1,582	265	2,110
Macomb, IL	1,710	194	2,277	180	—	4	50	194	2,281	230	2,705
Sycamore, IL	1,666	250	2,220	180	—	4	44	250	2,224	224	2,698
Marysville, OH	1,397	300	2,712	237	—	6	36	300	2,718	273	3,291
Plainfield, IN	1,510	300	1,962	180	—	4	17	300	1,966	197	2,463
	$15,189	$5,610	$43,822	$4,080	$—	$ 91	$815	$5,610	$43,913	$4,895	$54,418

(1) The aggregate cost of our real estate for Federal income tax purposes was $54,418,000. (unaudited)

Schedule III
PMC COMMERCIAL TRUST AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2002
(In thousands)

Description of Property The following are all hotel properties operating as Amerihost Inns	Accumulated Depreciation – Building and Improvements; Furniture and Fixtures	Date of Construction	Date of Acquisition	Life upon Which Depreciation in Statement Is Computed
Ashland, OH	428	8/9/1996	6/30/1998	7 - 35 years
Coopersville ,MI	362	1/9/1996	6/30/1998	7 - 35 years
Eagles Landing, GA	337	8/8/1995	6/30/1998	7 - 35 years
Grand Rapids-N, MI	389	7/5/1995	6/30/1998	7 - 35 years
Grand Rapids-S, MI	378	6/11/1997	6/30/1998	7 - 35 years
Jackson, TN	354	4/1/1998	6/30/1998	7 - 35 years
LaGrange, GA	282	3/1/1995	6/30/1998	7 - 35 years
McKinney, TX	361	1/6/1997	6/30/1998	7 - 35 years
Monroe, MI	387	9/19/1997	6/30/1998	7 - 35 years
Mosinee, WI	287	4/30/1993	6/30/1998	7 - 35 years
Mt. Pleasant, IA	352	7/2/1997	6/30/1998	7 - 35 years
Port Huron, MI	368	7/1/1997	6/30/1998	7 - 35 years
Rochelle, IL	357	3/7/1997	6/30/1998	7 - 35 years
Smyrna, GA	330	1/8/1996	6/30/1998	7 - 35 years
Storm Lake, IA	328	3/13/1997	6/30/1998	7 - 35 years
Tupelo, MS	346	7/25/1997	6/30/1998	7 - 35 years
Wooster — E, OH	320	1/18/1994	6/30/1998	7 - 35 years
Wooster — N, OH	320	10/21/1995	6/30/1998	7 - 35 years
Macomb, IL	325	5/1/1995	3/23/1999	7 - 35 years
Sycamore, IL	318	5/31/1996	3/23/1999	7 - 35 years
Marysville, OH	395	6/1/1990	3/5/1999	7 - 35 years
Plainfield, IN	288	9/1/1992	3/5/1999	7 - 35 years
	$7,613			

Schedule III
PMC COMMERCIAL TRUST AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2002
(In thousands)

Gross amount carried:

		Totals
Balance at December 31, 1999		$ 73,872
Additions during period:		
Acquisitions through foreclosure	$ —	
Other Acquisitions	—	
Improvements, etc.	—	
Other (describe)	—	$ —
Deductions during period:		
Cost of real estate sold	$ (2,931)	
Other (describe)	—	$ (2,931)
Balance at December 31, 2000		$ 70,941
Additions during period:		
Acquisitions through foreclosure	$ —	
Other Acquisitions	—	
Improvements, etc.	490	
Other (describe)	—	$ 490
Deductions during period:		
Cost of real estate sold	$(12,436)	
Other (describe)	—	$(12,436)
Balance at December 31, 2001		$ 58,995
Additions during period:		
Acquisitions through foreclosure	$ —	
Other Acquisitions	—	
Improvements, etc.	388	
Other (describe)	—	$ 388
Deductions during period:		
Cost of real estate sold	$ (4,965)	
Real estate held for sale	(2,159)	$ (7,124)
Balance at December 31, 2002		$ 52,259

Accumulated Depreciation:

Balance at December 31, 1999	$ 3,189

Additions during period:	
Depreciation expense during the period	2,250
Deductions during period:	
Assets sold or written-off during the period	(172)
Balance at December 31, 2000	$ 5,267
Additions during period:	
Depreciation expense during the period	2,101
Deductions during period:	
Assets sold or written-off during the period	(1,091)
Balance at December 31, 2001	$ 6,277
Additions during period:	
Depreciation expense during the period	1,903
Deductions during period:	
Real estate held for sale	(282)
Assets sold or written-off during the period	(567)
Balance at December 31, 2002	$ 7,331

Schedule IV
PMC COMMERCIAL TRUST AND SUBSIDIARIES
MORTGAGE LOANS ON REAL ESTATE
AS OF DECEMBER 31, 2002
(In thousands, except footnotes)

Description of Property	Number of Loans	Size of Loans (In thousands) From	Size of Loans (In thousands) To	Interest Rate Variable	Interest Rate Fixed	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages (1)	Carrying Amount of Mortgages	Principal Amount of Loans Subject to Delinquent Principal or Interest
99.7% of our mortgages are commercial first mortgages on limited service hospitality properties											
Mortgages 3% or greater:											
Lubbock, TX				5.53%		11/26/2022	(2)	$—	$ 3,850	$ 3,821	$ —
Hesperia, CA				5.53%		11/1/2022	(2)	—	3,595	3,604	—
Trussville, AL				5.63%		3/1/2022	(3)	—	2,445	2,430	—
Midland, TX				5.13%		9/10/2021	(4)	—	2,361	2,346	—
Stroudsburg, PA					10.80%	9/1/2017	(5)	—	2,263	2,240	—
States 3% or greater:											
Texas	4	$ 200	$1,000		10.50% to 11.16%	2/01/04--12/02/17		—	2,720	2,694	—
	7	$1,100	$1,800	5.38% to 5.63%	10.63% to 10.99%	12/31/02--6/25/22		—	10,328	9,928(6)	—
Maryland	1	(7)	(7)		10.25%	2/20/17		—	775	775	—
	3	$1,200	$1,800		9.60% to 10.40%	4/23/05--4/07/18		—	4,817	4,758	—
Arizona	1	(7)	(7)	5.63%		1/20/23		—	694	703	—
	3	$1,100	$1,600	5.38% to 5.63%	9.50%	9/06/04--1/11/22		—	4,107	4,087	—
North Carolina	3	$1,200	$1,700	4.88% to 5.63%		12/17/21--9/12/22		—	4,523	4,496	—
New York	3	$ 50	$ 900	5.38%	11.00%	12/01/03--9/05/22		—	1,500	1,497	—
	2	$1,000	$1,600	5.38%		3/19/17--9/05/22		—	2,744	2,715	—
Ohio	1	(7)	(7)		11.37%	8/12/04		—	192	191	—
	3	$1,100	$1,500	5.13%	9.00% to 11.37%	8/12/04--11/22/22		—	3,863	3,844	—
Missouri	2	$1,200	$2,100	5.38%	10.75%	8/23/06--5/16/22		—	3,181	3,169	—
Florida	1	(7)	(7)		10.25%	4/30/06		—	589	584	—
	1	(7)	(7)	5.38%		12/20/22		—	2,000	1,995	—
Mississippi	2	$1,000	$1,300		9.25% to 10.75%	10/02/06--4/14/18		—	2,307	2,292	—
Other	5	$ 200	$1,000		10.75% to 10.90%	6/28/03--7/31/12		—	2,904	2,882	—
	7	$1,200	$2,100	5.25% to 5.88%	9.60% to 10.90%	9/11/06--8/01/22		—	11,057	10,940	—
								$—	$72,816	$71,992	$ —

Footnotes:

(1) *The aggregate cost of our mortgages for Federal income tax purposes was $72,816,000. (unaudited)*

(2) *Payments based on variable interest rate, adjusting quarterly until maturity. Prepayment charge for first five years is 5% of the principal prepaid. Prepayment charge for the second five years is 3% of the principal prepaid. Thereafter, no prepayment charge.*

(3) *Payments based on variable interest rate, adjusting quarterly until maturity. Prepayment is prohibited until March 1, 2007; thereafter prepayment charge is based on a Yield Maintenance Premium.*

(4) *Payments based on variable interest rate, adjusting quarterly until maturity. Prepayment is prohibited until September 30, 2003; from then until September 30, 2011; penalty is sixty days of interest; from September 30, 2011 until maturity, no prepayment charge.*

(5) *Payments are equal until September 1, 2007. At that date, interest rate may be changed at our discretion. Prepayment charge is based on a Yield Maintenance Premium.*

(6) *Includes an impaired loan with a face amount of $1,756,000 and a valuation reserve of $365,000. This reserve was established based on the value of the collateral securing the loan receivable.*

(7) *Range not presented as represents only one loan.*

Schedule IV
PMC COMMERCIAL TRUST AND SUBSIDIARIES
MORTGAGE LOANS ON REAL ESTATE
AS OF DECEMBER 31, 2002
(In thousands)

		Totals
Balance at December 31, 1999		$115,265
Additions during period:		
New mortgage loans	$ 22,508	
Other — amortization of commitment fees	1,035	23,543
Deductions during period:		
Collections of principal	$(16,108)	
Foreclosures	(1,181)	
Cost of mortgages sold	(55,675)	
Amortization of premium	—	
Loan loss reserve	—	
Other — commitment fees collected, net	(199)	$ (73,163)
Balance at December 31, 2000		$ 65,645
Additions during period:		
New mortgage loans	$ 51,683	
Other — amortization of commitment fees	427	52,110
Deductions during period:		
Collections of principal	$ (5,935)	
Foreclosures	—	
Cost of mortgages sold	(32,662)	
Amortization of premium	—	
Loan loss reserve	(200)	
Other — commitment fees collected, net	(473)	$ (39,270)
Balance at December 31, 2001		$ 78,485
Additions during period:		
New mortgage loans	$ 32,776	
Other — amortization of commitment fees	220	32,996
Deductions during period:		
Collections of principal	$(12,268)	
Foreclosures	—	
Cost of mortgages sold	(27,286)	
Amortization of premium	—	
Loan loss reserve	(65)	

Other — commitment fees collected, net	(175)	$ (39,794)
Balance at December 31, 2002		$ 71,687

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement of Purchase and Sale, dated as of May 21, 1998, by and among Registrant and the various corporations identified on Exhibit A thereto (which includes as Exhibit D thereto, the form of the Master Agreement relating to the leasing of the properties), including Amerihost Properties, Inc. and Amerihost Inns, Inc. (previously filed with the Commission as Exhibit 2.2 to the Registrant's Form 8-K dated June 5, 1998 and incorporated herein by reference).
*2.2	Agreement and Plan of Merger by and between PMC Commercial Trust and PMC Capital, Inc. dated March 27, 2003.
*2.3	Form of Voting Agreement pursuant to Agreement and Plan of Merger — PMC Commercial Trust — dated March 27, 2003.
*2.4	Form of Voting Agreement pursuant to Agreement and Plan of Merger — PMC Capital, Inc. — dated March 27, 2003.
3.1	Declaration of Trust. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
3.1(a)	Amendment No. 1 to Declaration of Trust. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
3.1(b)	Amendment No. 2 to Declaration of Trust (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1993).
3.2	Bylaws. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
4.1	Instruments defining the rights of security holders. The instruments filed in response to items 3.1 and 3.2 are incorporated in this item by reference. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
10.2	1993 Employee Share Option Plan. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
10.3	1993 Trust Manager Share Option Plan. Previously filed as an exhibit to our Registration Statement on Form S-11 filed with the Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.
10.6	Revolving Credit Facility (incorporated by reference from Registrant's Form 10-Q for the quarter ended March 31, 1998).
10.7	Third Amendment to Loan Agreement and Amendment to Loan Documents and Renewal and Extension of Loan Dated

	as of March 15, 1998 (incorporated by reference from Registrant's Form 10-Q for the quarter ended March 31, 1998).
10.8	Fourth Amendment to Loan Agreement and Amendment to Loan Documents and Renewal and Extension of Loan Dated as of June 30, 1998 (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1998).
10.9	Fifth Amendment to Loan Agreement and Amendment to Loan Documents and Renewal and Extension of Loan Dated as of November 30, 1998 (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1998).
10.10	Sixth Amendment to Loan Agreement and Amendment to Loan Documents and Renewal and Extension of Loan Dated as of November 29, 1999 (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1999).
10.11	Trust Indenture between PMC Joint Venture, L.P. 2000 and BNY Midwest Trust Company, dated as of December 15, 2000 (incorporated by reference to Exhibit 2.1 from Registrant's Form 8-K filed on March 13, 2001).
10.12	Servicing Agreement by and among BNY Midwest Trust Company, PMC Joint Venture, L.P. 2000 and PMC Capital and PMC Commercial Trust, dated as of December 15, 2000 (incorporated by reference to Exhibit 2.2 from Registrant's Form 8-K filed on March 13, 2001).
10.13	Servicing Agreement by and among BNY Midwest Trust Company as Trustee and Supervisory Servicer, PMC Joint Venture, L.P. 2001, as Issuer and PMC Capital, Inc. and PMC Commercial Trust, as Servicers (incorporated by reference to Exhibit 10.1 from Registrant's Form 10-Q for the quarterly period ended June 30, 2001).
10.14	Trust Indenture by and among BNY Midwest Trust Company as Trustee and PMC Joint Venture, L.P. 2001, as Issuer (incorporated by reference to Exhibit 10.2 from Registrant's Form 10-Q for the quarterly period ended June 30, 2001).
10.15	Amended and Restated Master Agreement, dated as of January 24, 2001, by and among PMC Commercial Trust, and certain of its subsidiaries, and Amerihost Properties, Inc., doing business as Arlington Hospitality, Inc. (incorporated by reference to Exhibit 2.3 from Registrant's form 8-K filed on March 13, 2001).
10.17	First Amendment to Credit Agreement between PMC Commercial Trust and Bank One, Texas, N.A. dated June 5, 2000 (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 2001).

10.18	Second Amendment to Credit Agreement between PMC Commercial Trust and Bank One, Texas, N.A. dated July 11, 2000 (incorporated by reference from Registrant's Form 10-K for the year ended December 31, 2001).
10.19	Third Amendment to Credit Agreement between PMC Commercial Trust and Bank One, Texas, N.A. dated September 30, 2002 (incorporated by reference from Registrant's Form 10-Q for the quarterly period ended September 30, 2002).
10.20	Trust Indenture between PMC Joint Venture, L.P. 2002-1 and BNY Midwest Trust Company, dated April 3, 2002 (incorporated by reference to Exhibit 2.1 from Registrant's Form 8-K filed on April 19, 2002).
10.21	Servicing Agreement by and among BNY Midwest Trust Company, PMC Joint Venture, L.P. 2002-1, PMC Capital, Inc. and PMC Commercial Trust, dated April 3, 2002 (incorporated by reference to Exhibit 2.2 from Registrant's Form 8-K filed on April 19, 2002).
*10.22	Fourth Amendment to Credit Agreement between PMC Commercial Trust and Bank One, Texas, N.A. dated March 11, 2003.
*10.23	Investment Management Agreement between PMC Commercial Trust and PMC Advisers, Ltd. dated July 1, 2002.
*10.24	Form of Distribution and Indemnification Agreement
*21.1	Subsidiaries of the Registrant
*23.1	Consent of PricewaterhouseCoopers LLP
*99.1	Officer Certification — Chief Executive Officer
*99.2	Officer Certification — Chief Financial Officer

* Filed herewith.

AGREEMENT AND PLAN OF MERGER

BY AND BETWEEN

PMC COMMERCIAL TRUST

AND

PMC CAPITAL, INC.

DATED AS OF MARCH 27, 2003

TABLE OF CONTENTS

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (the "Agreement"), dated as of March 27, 2003, is made and entered into by and between PMC Commercial Trust, a Texas real estate investment trust ("Trust"), and PMC Capital, Inc., a Florida corporation that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended ("Capital"). Trust and Capital are referred to herein, from time to time, individually as a "Party" and together as the "Parties."

RECITALS

WHEREAS, the Board of Directors of Capital and the Board of Trust Managers of Trust have approved and deem it advisable and in the best interests of their respective shareholders to consummate the merger transaction provided for herein whereby Capital will merge with and into Trust (the "Merger") in accordance with applicable state law and, upon the terms and subject to the conditions set forth in this Agreement, the holders of shares of common stock, par value $0.01 per share, of Capital (the "Capital Common Stock") will be entitled, subject to the terms and conditions hereof, to receive common shares of beneficial interest, par value $0.01 per share, of Trust (the "Trust Common Shares");

WHEREAS, Trust and Capital desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

WHEREAS, for federal income tax purposes it is intended that the Merger qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and this Agreement constitutes a plan of reorganization under Section 368 of the Code;

WHEREAS, concurrently with the execution of this Agreement and as an inducement to Trust to enter into this Agreement, each of the Persons listed on Annex A has entered into a voting agreement (the "Capital Voting Agreement") pursuant to which each such Person has agreed, among other things, to vote its shares of Capital Common Stock in favor of this Agreement, the Merger and any other matter that requires its vote in connection with the transactions contemplated by this Agreement;

WHEREAS, concurrently with the execution of this Agreement and as an inducement to Capital to enter into this Agreement, each of the Persons listed on Annex B has entered into a voting agreement (the "Trust Voting Agreement") pursuant to which each such Person has agreed, among other things, to vote its Trust Common Shares in favor of this Agreement, the Merger and any other matter that requires its vote in connection with the transactions contemplated by this Agreement; and

WHEREAS, the transactions contemplated by this Agreement, the Capital Voting Agreement, the Trust Voting Agreement and the other agreements and documents contemplated hereby, including, without limitation, the Merger, shall be referred to collectively in this Agreement as the "Transactions."

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1. THE MERGER. Subject to the terms and conditions of this Agreement and in accordance with the Florida Business Corporation Act (the "FBCA") and the Texas Real Estate Investment Trust Act (the "REIT Act"), at the Effective Time, Trust and Capital shall consummate the Merger pursuant to which (a) Capital shall be merged with and into Trust and the separate corporate existence of Capital shall thereupon cease, (b) Trust shall be the successor or surviving entity in the Merger (the "Surviving Entity"), shall succeed to and assume all rights and obligations of Capital and shall continue to be governed by Trust's Amended and Restated Declaration of Trust, as amended and restated at the Effective Time, Trust's Bylaws and the laws of the State of Texas, including the REIT Act and (c) the separate corporate existence of Trust with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger.

1.2. CLOSING. The closing of the Merger (the "Closing") shall take place at 10:00 a.m. on a date to be specified by the Parties (the "Closing Date"), which Closing Date shall be no later than the second business day after satisfaction or waiver of all of the conditions set forth in Article IX hereof (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions), at the offices of Locke Liddell & Sapp LLP, 2200 Ross Avenue, Suite 2200, Dallas, Texas 75201, unless another time, date or place is agreed to in writing by the Parties hereto.

1.3. EFFECTIVE TIME. Subject to the provisions of this Agreement, as soon as practicable on the Closing Date, Trust and Capital shall file articles of merger, or other appropriate documents (the "Articles of Merger"), executed in accordance with the relevant provisions of the FBCA and REIT Act, respectively, and as soon as practicable on or after the Closing Date, the Parties shall make all other filings or recordings required under the FBCA and the REIT Act. The Merger shall become effective upon the later of (a) the filing of the Articles of Merger with the Dallas County Clerk, Dallas, Texas in accordance with the REIT Act and (b) the filing of the Articles of Merger with the Secretary of State of the State of Florida in accordance with the FBCA, or at such other time, if any, as Trust and Capital shall agree and designate in such filings in accordance with applicable law (the time the Merger becomes effective being the "Effective Time").

1.4. EFFECTS OF THE MERGER. The Merger shall have the effects set forth in the FBCA and the REIT Act and this Agreement.

1.5. CHARTER AND BYLAWS. The Amended and Restated Declaration of Trust of Trust (the "Charter"), as in effect immediately prior to the Effective Time, shall be the Declaration of Trust of the Surviving Entity (the "Surviving Entity Charter") until thereafter changed or amended as provided therein or by applicable law. The Bylaws of the Trust, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Entity (the

"Surviving Entity Bylaws") until thereafter changed or amended as provided therein or by applicable law.

1.6. TAKING OF NECESSARY ACTION. Each of Trust and Capital shall use its commercially reasonable efforts to take all such action as may be necessary or appropriate in order to effectuate the Merger under the FBCA and the REIT Act.

ARTICLE II

BOARD AND OFFICERS OF THE SURVIVING ENTITY

2.1. BOARD OF THE SURVIVING ENTITY. The trust managers of the Surviving Entity immediately following the Effective Time shall be the persons named on Schedule 2.1 hereto, each of which shall serve until their successors shall have been duly elected or appointed and qualified or until the earlier of their death, resignation or removal in accordance with the Surviving Entity Charter and Surviving Entity Bylaws. Such trust managers of the Surviving Entity shall be appointed to the committees of the Surviving Entity's Board of Trust Managers as indicated on Schedule 2.1.

2.2. OFFICERS OF THE SURVIVING ENTITY. The officers of the Surviving Entity immediately following the Effective Time shall be the persons named on Schedule 2.2 hereto, each of whom shall serve in such capacity until their respective successors are duly appointed and qualified or until the earlier of their death, resignation or removal in accordance with the Surviving Entity Certificate and Surviving Entity Bylaws.

ARTICLE III

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT ENTITIES

3.1. EFFECT ON CAPITAL STOCK. As of the Effective Time, by virtue of the Merger and without any action on the part of Trust or Capital or the holders of any Trust Common Shares or shares of Capital Common Stock:

(a) Cancellation of Treasury Stock. Each issued and outstanding share of Capital Common Stock that is owned, immediately prior to the Effective Time, by Capital (or any direct or indirect Subsidiary (as hereinafter defined) of Capital) as treasury stock, shall be automatically canceled and cease to exist without any conversion thereof, and no consideration shall be delivered in exchange therefor.

(b) Conversion of Capital Common Stock. Each share of Capital Common Stock issued and outstanding immediately prior to the Effective Time, other than those shares to be canceled in accordance with Section 3.1(a) above, shall be canceled and shall be converted automatically solely into the right to receive 0.37 of validly issued, fully paid and nonassessable Trust Common Share (the "Exchange Ratio"). As of the Effective Time, all of the certificates evidencing shares of Capital Common Stock (the "Certificates"), by virtue of the Merger and without any action on the part of Capital or the shareholders of Capital, shall no longer be outstanding and shall automatically be canceled and cease to exist, and each holder of a Certificate shall cease to have any rights with respect to the Capital Common Stock represented thereby, except the right to receive, upon the surrender of such Certificate in accordance with Article IV herein, certificates evidencing the Trust Common Shares and any cash in lieu of fractional Trust Common Shares to be issued or paid in consideration therefor upon surrender of such Certificate (the "Merger Consideration"), and any dividends or other distributions to which such holder is entitled pursuant to Section 4.3 below, in each case without interest and less any required withholding taxes.

(c) Trust Common Shares. Upon the Effective Time, each Trust Common Share outstanding immediately prior to the Effective Time shall remain outstanding and shall represent one validly issued, fully paid and nonassessable Trust Common Share.

3.2. CAPITAL STOCK OPTIONS AND RELATED MATTERS. To the extent that acceleration by Capital of the exercisability of any outstanding option to purchase shares of Capital Common Stock (each, a "Capital Option") is permitted but not required by the applicable governing instrument, then Capital shall not elect to cause such acceleration to occur. In connection therewith, at the Effective Time, to the extent not prohibited by the terms of the relevant governing instrument, each Capital Option that is outstanding and unexercised immediately prior thereto shall cease to represent a right to acquire shares of Capital Common Stock and shall be converted automatically into an option to purchase Trust Common Shares in an amount and at an exercise price determined as provided below (and otherwise subject to the terms of the Capital's 1997 Employee Stock Option Plan (the "Capital Plan"), and the agreements evidencing grants thereunder, including, subject to the provisions of the first sentence of this Section 3.2, the accelerated vesting of Capital Options that shall occur in connection with and by virtue of the Merger as and to the extent required by the Capital Plan or such agreements):

(a) The number of Trust Common Shares to be subject to the option shall be equal to the product of the number of shares of Capital Common Stock subject to the original Capital Option and the Exchange Ratio, provided that any fractional Trust Common Share resulting from such multiplication shall be rounded down to the nearest whole share; and

(b) The exercise price per Trust Common Share under the option shall be equal to the exercise price per share of Capital Common Stock under the original Capital Option divided by the Exchange Ratio, provided that such exercise price shall be rounded up to the nearest whole cent.

The adjustment provided herein with respect to any Capital Options that are "incentive stock options" (as defined in Section 422 of the Code) shall be and is intended to be effected in a manner that is consistent with Section 424(a) of the Code and, to the extent it is not so consistent, Section 424(a) shall override anything to the contrary contained herein. The duration and other terms of the new option shall be the same as the original Capital Option except that all references to Capital shall be deemed to be references to Trust.

ARTICLE IV

PAYMENT FOR SHARES; EXCHANGE OF CERTIFICATES

4.1. EXCHANGE AGENT. From and after the Effective Time, such bank or trust company as shall be mutually acceptable to Capital and Trust shall act as exchange agent (the "Exchange Agent"). At or prior to the Effective Time, Trust shall deposit, or shall otherwise take all steps necessary to cause to be deposited, with the Exchange Agent and for the benefit of the holders of shares of Capital Common Stock, certificates representing the Trust Common Shares (such certificates, together with any dividends or distributions with respect thereto with a record date after the Effective Time, being hereinafter referred to as the "Exchange Fund") to be issued pursuant to Section 3.1 and paid pursuant to this Article IV in exchange for outstanding shares of Capital Common Stock. The Exchange Agent shall also act as authorized agent for the holders of Capital Common Stock for purposes of the receipt of the dividends and distributions, if any, declared by Capital pursuant to Section 4.3 below. Prior to the Effective Time, Capital shall pay to the Exchange Agent, for the benefit of the holders of Capital Common Stock, sufficient Capital cash to make the distribution to holders of Capital Common Stock described in Section 4.3. The Exchange Agent shall pay such cash to the holders of Capital Common Stock as described in this Article IV.

4.2. EXCHANGE PROCEDURES. As soon as reasonably practicable after the Effective Time but in no event more than five business days after the Effective Time, the Surviving Entity shall cause the Exchange Agent to mail to each holder of record of a Certificate or Certificates (a) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as the Surviving Entity may reasonably specify and (b) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing Trust Common Shares. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration into which shares of Capital Common Stock theretofore represented by such Certificate shall have been converted pursuant to Section 3.1. In addition, such holder shall be entitled to receive from the Exchange Agent from Capital funds a check representing dividends or distributions, if any, declared by Capital pursuant to Section 4.3 below, after giving effect to any required withholding tax. The Certificate or Certificates so surrendered shall forthwith be canceled and cease to exist. No interest will be paid or accrued on dividends or distributions, if any, payable to holders of Certificates pursuant to this Section 4.2. Each Trust Common Share issued as part of the Merger Consideration shall be deemed to have been issued at the Effective Time. In the event of a transfer of ownership of Capital Common Stock which is not registered in the transfer records of Capital, a certificate representing the proper number of Trust Common Shares plus, to the extent applicable, the amount of any dividend or distribution, if any, from Capital payable pursuant to Section 4.3 below, may be issued to such a transferee if the Certificate is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 4.2, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration, without interest, into which the shares of Capital Common Stock theretofore represented by such Certificate shall have been converted pursuant to Section 3.1, and any dividends or distributions from Capital to which such holder is entitled pursuant to Section 4.3.

4.3. DIVIDENDS AND DISTRIBUTIONS.

(a) To the extent that Western Financial Capital Corporation, a Florida corporation wholly owned by Capital ("WFCC") has taxable income for its taxable year ending on the Closing Date (calculated with regard to all prior dividends paid by WFCC), Capital shall cause WFCC to declare and pay a dividend to Capital on the last business day prior to the Effective Time in an amount equal to the minimum dividend sufficient to permit WFCC to eliminate any federal tax liability for its taxable year ending on the Closing Date. To the extent Capital has taxable income for its taxable year ending on the Closing Date (calculated with regard to all prior dividends paid by Capital) it shall declare a dividend (the "Final Capital Dividend") to holders of Capital Common Stock, the record date for which shall be the close of business on the last business day prior to the Effective Time, in an amount equal to the minimum dividend sufficient to permit Capital to eliminate any federal tax liability for its taxable year ending on the Closing Date. If Capital determines it necessary to declare the Final Capital Dividend, it shall notify Trust at least ten (10) days prior to the date of the Capital Shareholders Meeting (as hereinafter defined), and Trust shall declare a dividend per Trust Common Share to holders of Trust Common Shares, the record date for which shall be the close of business on the last business day prior to the Effective Time, in an amount per share equal to the quotient obtained by dividing (i) the Final Capital Dividend per share of Capital Common Stock paid by Capital by (ii) the Exchange Ratio. The dividends payable hereunder to holders of Capital Common Stock shall be paid by Capital from Capital funds prior to the Effective Time. Such payment shall be effectuated by Capital first paying such funds to the Exchange Agent, as authorized agent for the holders of Capital Common Stock, prior to the Effective Time. Thereafter, the Exchange Agent shall pay such funds to the holders of Capital Common Stock upon presentation of the Certificates for exchange in accordance with this Article IV.

(b) Notwithstanding any other provisions of this Agreement, no dividends or other distributions on the Trust Common Shares issuable as part of the Merger Consideration shall be paid with respect to any Certificate until such Certificate is surrendered for exchange as provided herein; provided, however, that subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the holder of the certificates representing shares of Trust Common Shares issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to such Trust Common Shares and not paid, less the amount of any withholding taxes which may be required thereon and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such Trust Common Shares, less the amount of any withholding taxes which may be required thereon.

4.4. NO FURTHER OWNERSHIP RIGHTS IN CAPITAL COMMON STOCK. The Merger Consideration issued upon the surrender for exchange of Certificates in accordance with the terms of this Article IV shall be deemed to have been issued in full satisfaction of all rights pertaining to the shares of Capital Common Stock previously represented by such Certificates; provided, however, that Capital shall transfer to the Exchange Agent cash sufficient to pay any dividends or make any other distributions described in Section 4.3, and at and after the Effective Time, there shall be no further registration of transfers on the stock transfer books of Capital of the shares of Capital Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Entity or the Exchange Agent for any reason, they shall be canceled and exchanged as provided in this Article IV.

4.5. TERMINATION OF EXCHANGE FUND. Any portion of the Exchange Fund that remains unclaimed by, and undistributed to, the former shareholders of Capital twelve (12) months after the Effective Time shall be delivered to the Surviving Entity. Any former shareholders of Capital who have not theretofore complied with this Article IV shall thereafter look only to the Surviving Entity for payment of their Merger Consideration (plus dividends and distributions to the extent set forth in Section 4.3, if any), as determined pursuant to this Agreement, without any interest thereon. If any Certificates shall not have been surrendered prior to one year after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration would otherwise escheat to or become the property of any governmental entity), any such Merger Consideration in respect thereof shall, to the extent permitted by applicable law, become the property of the Surviving Entity, free and clear of all claims or interest of any person previously entitled thereto.

4.6. NO LIABILITY. None of Trust, Capital, the Exchange Agent or any other Person shall be liable to any former holder of shares of Capital Common Stock for any amount properly delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

4.7. LOST CERTIFICATES. In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Entity, the posting by such person of a bond in such reasonable amount as the Surviving Entity may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent or the Surviving Entity will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration (plus, to the extent applicable, dividends and distributions payable pursuant to Section 4.3).

4.8. WITHHOLDING RIGHTS. The Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Capital Common Stock pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under the Code, or under any provision of state, local or foreign tax law. To the extent that amounts are so withheld and paid over to the appropriate taxing authority, the Exchange Agent will be treated as though it withheld an appropriate amount of the type of consideration otherwise payable pursuant to this Agreement to any holder of Capital Common Stock, sold such consideration for an amount of cash equal to the fair market value of such consideration at the time of such deemed sale and paid such cash proceeds to the appropriate taxing authority.

4.9. NO FRACTIONAL SHARES.

(a) No certificates or scrip representing fractional Trust Common Shares shall be issued upon the surrender for exchange of Certificates, and such fractional share interests will not entitle the owner thereof to vote, to receive dividends or to any other rights of a shareholder of Trust.

(b) Notwithstanding any other provision of this Agreement, each holder of shares of Capital Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of an Trust Common Share (after taking into account all Certificates delivered by such holder) shall receive, from the Exchange Agent in accordance with the provisions of this Section 4.9, a cash payment in lieu of such fractional Trust Common Shares, as applicable, representing such holder's proportionate interest, if any, in the net proceeds from the sale by the Exchange Agent in one or more transactions (which sale transactions shall be made at such times, in such manner and on such terms as the Exchange Agent shall determine in its reasonable discretion) on behalf of all such holders of the aggregate of the fractional Trust Common Shares, as applicable, which would otherwise have been issued (the "Excess Trust Shares"). The sale of the Excess Trust Shares by the Exchange Agent shall be executed on the American Stock Exchange (the "AMEX") through one or more member firms of the AMEX and shall be executed in round lots to the extent practicable. Until the net proceeds of such sale or sales have been distributed to the holders of Certificates, the Exchange Agent will hold such proceeds in trust (the "Exchange Trust") for the holders of Certificates. Trust shall pay all commissions, transfer taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with this sale of the Excess Trust Shares (other than transfer taxes that, under applicable state law, are solely the liability of the holders of Capital Common Stock exchanging such shares in the Merger (which taxes shall be paid by such holders). As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Certificates in lieu of any fractional Trust Common Shares, the Exchange Agent shall make available such amounts to such holders of Certificates without interest.

4.10. VOTING RIGHTS. Holders of record immediately prior to the Effective Time of Capital Common Stock shall be entitled, at and after the Effective Time, to vote the number of Trust Common Shares into which their Capital Common Stock shall have been converted so long as they remain record holders of such Trust Common Shares, regardless of whether the Certificates shall have been surrendered in accordance with this Article IV.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF CAPITAL

Except as set forth in the disclosure schedules attached hereto (the "Capital Disclosure Schedules"), which shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article V and that may be amended from time to time pursuant to the provisions hereof, Capital represents and warrants to Trust that:

5.1. ORGANIZATION, STANDING AND CORPORATE POWER OF CAPITAL. Capital is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida and has the requisite corporate power and authority to carry on its business as now being conducted. Capital is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a material adverse effect on the business, properties, assets, financial condition or results of operations of Capital and the Capital Subsidiaries (as defined below) taken as a whole but excluding therefrom any such change, effect, event, occurrence or state of facts resulting from or arising in connection with (a) changes or conditions generally affecting the industries in which the Capital operates, (b) this Agreement, the transactions contemplated hereby or the announcement thereof or (c) any change or effect resulting from any change in general economic conditions (a "Capital Material Adverse Effect"). Capital has delivered to Trust or its counsel complete and correct copies of its Articles of Incorporation and Bylaws, as amended to the date of this Agreement. For purposes of this Agreement, the term "Subsidiary" of any Person means any corporation, partnership, limited liability company, joint venture or other legal entity of which such Person (either directly or through or together with another Subsidiary of such Person) has the right or power to elect a majority of the board of directors or other governing body, and the term "Person" means an individual, corporation, partnership, limited liability company, trust, association, unincorporated organization or other entity.

5.2. CAPITAL SUBSIDIARIES. Schedule 5.2 hereto sets forth each Capital Subsidiary and the ownership interest therein of Capital. The Capital Subsidiaries include, but are not limited to, WFCC, PMC Investment Corporation, a Florida corporation ("PMIC") and First Western SBLC, Inc., a Florida corporation ("First Western") (WFCC, PMIC and First Western are collectively referred to as the "RIC Capital Subsidiaries' and may be individually referred to as a "RIC Capital Subsidiary"). Except as set forth on Schedule 5.2, (a) all the outstanding shares of capital stock of each Capital Subsidiary that is a corporation have been validly issued and are fully paid and nonassessable, are owned by Capital or by another Capital Subsidiary free and clear of all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens") and (b) all equity interests in each Capital Subsidiary that is a partnership, joint venture, limited liability company or trust are owned by Capital, by another Capital Subsidiary, by Capital and another Capital Subsidiary or by two or more Capital Subsidiaries free and clear of all Liens. Except for the capital stock of or other equity or ownership interests in Capital Subsidiaries, and except as set forth on Schedule 5.2, Capital does not own, directly or indirectly, any capital stock or other ownership interest in any Person. Each Capital Subsidiary that is a corporation is duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has the requisite corporate power and authority to carry on its business as now being conducted, and each Capital Subsidiary that is a partnership, limited liability company or trust is duly organized and validly existing under the laws of its jurisdiction of organization and has the requisite power and authority to carry on its business as now being conducted. Except as set forth on Schedule 5.2, each Capital Subsidiary is duly qualified or licensed to do business and, where applicable, is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, could not reasonably be expected to have a Capital Material Adverse Effect.

5.3. CAPITAL STRUCTURE. The authorized capital stock of Capital consists of 30,000,000 shares of Capital Common Stock and no shares of preferred stock, par value $.01 per share (the "Preferred Stock"). On the date hereof, (a) 11,853,516 shares of Capital Common Stock and no shares of Preferred Stock were issued and outstanding, (b) no shares of Capital Common Stock or Preferred Stock were held by Capital in its treasury and (c) 236,250 shares of Capital Common Stock were issuable upon exercise of outstanding Capital Options. On the date of this Agreement, except as set forth above in this Section 5.3, no shares of capital stock or other voting securities of Capital were issued, reserved for issuance or outstanding. There are no outstanding stock appreciation rights relating to the capital stock of Capital. All outstanding shares of capital stock of Capital are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of Capital having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which shareholders of Capital may vote. Except (i) for the Capital Options or (ii) as set forth on Schedule 5.3, as of the date of this Agreement there are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Capital or any Capital Subsidiary is a party or by which such entity is bound, obligating Capital or any Capital Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock, voting securities or other ownership interests of Capital or any Capital Subsidiary or obligating Capital or any Capital Subsidiary to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking (other than to Capital or a Capital Subsidiary). Except as set forth on Schedule 5.3, there are no outstanding contractual obligations of Capital or any Capital Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of Capital or any capital stock, voting securities or other ownership interests in any Capital Subsidiary or make any material investment (in the form of a loan, capital contribution or otherwise) in any person (other than a Capital Subsidiary).

5.4. AUTHORITY; NONCONTRAVENTION. Capital has the requisite corporate power and authority to enter into this Agreement and, subject to approval of this Agreement by the vote of the holders of the Capital Common Stock required to approve this Agreement and the transactions contemplated hereby (the "Capital Shareholder Approvals"), to consummate the transactions contemplated by this Agreement to which Capital is a party. The execution and delivery of this Agreement by Capital and the consummation by Capital of the transactions contemplated by this Agreement to which Capital is a party have been duly authorized by all necessary corporate action on the part of Capital, subject to approval of this Agreement pursuant to Capital Shareholder Approvals. Except as set forth on Schedule 5.4, the execution and delivery of this Agreement by Capital do not, and the consummation of the transactions contemplated by this Agreement to which Capital is a party and compliance by Capital with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Capital or any Capital Subsidiary under, (a) the Articles of Incorporation or the Bylaws of Capital or the comparable charter or organizational documents or partnership or similar agreement (as the case may be) of any Capital Subsidiary, (b) any loan or credit agreement, note, bond, mortgage, indenture, reciprocal easement agreement, lease or other agreement, instrument, permit, concession, contract, franchise or license applicable to Capital or any Capital Subsidiary or their respective properties or assets or (c) subject to the governmental filings and other matters referred to in Section 5.5, any judgment, order, decree, statute, law, ordinance, rule or regulation (collectively, "Laws") applicable to Capital or any Capital Subsidiary, or their respective properties or assets, other than, in the case of clause (b) or (c), any such conflicts, violations, defaults, rights or Liens that individually or in the aggregate could not reasonably be expected to (i) have a Capital Material Adverse Effect or (ii) prevent the consummation of the Transactions.

5.5. CONSENTS. No consent, approval, order or authorization of, or registration, declaration or filing with, any federal, state or local government or any court, administrative or regulatory agency or commission or other governmental authority or agency, domestic or foreign (a "Governmental Entity"), is required by or with respect to Capital or any Capital Subsidiary in connection with the execution and delivery of this Agreement by Capital or the consummation by Capital of the transactions contemplated by this Agreement, except for (a) the filing by any person in connection with any of the Transactions of a pre-merger notification and report form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), to the extent applicable; (b) compliance with any applicable requirements of (i) the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, (ii) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, including, without limitation, the filing with the Securities and Exchange Commission (the "SEC") of a joint proxy statement/prospectus relating to the approval by Capital's and Trust's shareholders of the transactions contemplated by this Agreement (as amended or supplemented from time to time, the "Joint Proxy Statement/Prospectus"), (iii) the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations promulgated thereunder and (iv) the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"), and the rules and regulations promulgated thereunder; (c) the filing of Articles of Merger with the Secretary of State of the State of Florida and the Dallas County Clerk, Dallas, Texas; (d) compliance with any applicable requirements of the Small Business Investment Act of 1958, as amended, and the rules and regulations promulgated thereunder (the "1958 Act"), the Small Business Investment Act (1958), as amended, and the rules and regulations promulgated thereunder (the "Small Business Investment Act") and any other applicable requirements, rules, or regulations of the U.S. Small Business Administration (the "SBA"); (e) the issuance by the SEC of an order exempting the Merger from the provisions of Sections 17(a) and 57(a) of the 1940 Act (the "Exemptive Order"); and (f) such other consents, approvals, orders, authorizations, registrations, declarations and filings (i) as are set forth on Schedule 5.5, (ii) as may be required under (A) federal, state or local environmental laws or (B) the "blue sky" laws of various states or (iii) which, if not obtained or made, would not prevent or delay in any material respect the consummation of any of the transactions contemplated by this Agreement or otherwise prevent Capital from performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Capital Material Adverse Effect.

5.6. SEC DOCUMENTS; FINANCIAL STATEMENTS; UNDISCLOSED LIABILITIES. Capital has filed all required reports, schedules, forms, statements and other documents with the SEC since December 31, 2001 (the "Capital SEC Documents"). All of the Capital SEC Documents (other than preliminary material), as of their respective filing dates, complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and, in each case, the rules and regulations promulgated thereunder applicable to such Capital SEC Documents. None of the Capital SEC Documents at the time of filing and effectiveness contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent such statements have been modified or superseded by later Capital SEC Documents. The consolidated and consolidating financial statements of Capital included in the Capital SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented, in accordance with the applicable requirements of GAAP, the financial position of Capital as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the Capital SEC Documents, on Schedule 5.6 or as permitted by Section 7.1 (for the purposes of this sentence, as if Section 7.1 had been in effect since December 31, 2002), neither Capital nor any Capital Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of Capital or, to the knowledge of Capital, of any unconsolidated Capital Subsidiary or in the notes thereto and which, individually or in the aggregate, would have a Capital Material Adverse Effect.

5.7. BINDING EFFECT. This Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, Capital enforceable against Capital in accordance with its terms as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether such enforcement is sought in a proceeding in equity or at law).

5.8. ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as disclosed in the Capital SEC Documents or on Schedule 5.8, since the date of the most recent financial statements included in the Capital SEC Documents (the "Capital Financial Statement Date") and to the date of this Agreement, Capital and the Capital Subsidiaries have conducted their business only in the ordinary course and there has not been (a) any change that would have a Capital Material Adverse Effect (a "Capital Material Adverse Change"), nor has there been any occurrence or circumstance that with the passage of time would reasonably be expected to result in a Capital Material Adverse Change, (b) except for regular quarterly dividends not in excess of $0.12 per share of Capital Common Stock, any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of Capital's capital stock, other than any dividend required to be paid pursuant to Section 4.3, (c) any split, combination or reclassification of any of Capital's capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for, or giving the right to acquire by exchange or exercise, shares of its capital stock or any issuance of an ownership interest in, any Capital Subsidiary except as permitted by Section 7.1, (d) any damage, destruction or loss, not covered by insurance, that has or would have a Capital Material Adverse Effect or (e) any change in accounting methods, principles or practices by Capital or any Capital Subsidiary, except insofar as may have been disclosed in the Capital SEC Documents or required by a change in GAAP.

5.9. LITIGATION. Except as disclosed in the Capital SEC Documents or on Schedule 5.9, and other than personal injury and other routine litigation arising from the ordinary course of operations of Capital and the Capital Subsidiaries, there is no suit, action or proceeding pending or threatened in writing against or affecting Capital or any Capital Subsidiary that, individually or in the aggregate, could reasonably be expected to (a) have a Capital Material Adverse Effect or (b) prevent the consummation of any of the Transactions, nor is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against Capital or any Capital Subsidiary having, or which, insofar as reasonably can be foreseen, in the future would have, a Capital Material Adverse Effect.

5.10. ENVIRONMENTAL MATTERS.

(a) Except (i) as disclosed in the Capital SEC Documents or as set forth in Schedule 5.10, (ii) for matters that, individually or in the aggregate, could not reasonably be expected to have a Capital Material Adverse Effect or (iii) for commercially reasonable quantities of leasing and office supplies, Capital has never generated, transported, used, stored, treated, disposed of or managed any Hazardous Substance and to the knowledge of Capital, (A) Capital does not have any material liability under, nor has Capital ever violated in any material respect, any Environmental, Health and Safety Law; (B) to Capital's knowledge Capital is in compliance in all material respects with all applicable Environmental, Health and Safety Laws; and (C) Capital has never entered into nor been subject to any judgment, consent decree, compliance order, or administrative order with respect to any environmental or health and safety matter nor received any demand letter, formal complaint or claim with respect to any environmental or health and safety matter or the enforcement of any Environmental, Health and Safety Law.

(b) For the purposes of this Agreement, "Environmental, Health and Safety Laws" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act of 1976, the Clean Air Act, the Federal Water Pollution Control Act, the Safe Drinking Water Act of 1974, the Toxic Substances Control Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Hazardous Materials Transportation Act, and the Occupational Safety and Health Act of 1970, each as amended, together with all other laws (including rules, regulations, codes, injunctions, judgments, orders, decrees and rulings) of federal state and local governments (and all agencies thereof) concerning pollution or protection of the environment, public health and safety, or employee health and safety, including laws relating to emissions, discharges, releases, or threatened release of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials (including petroleum products and asbestos) or wastes into ambient air, surface water, ground water, or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes ("Hazardous Substances").

5.11. RELATED PARTY TRANSACTIONS. Set forth on Schedule 5.11 is a list of all arrangements, agreements and contracts entered into by Capital or any of the Capital Subsidiaries with any person who is an officer, director or affiliate of Capital or any of the Capital Subsidiaries, any relative of any of the foregoing or any entity of which any of the foregoing is an affiliate. Such documents, copies of all of which have previously been delivered or made available to Trust, are listed on Schedule 5.11.

5.12. ABSENCE OF CHANGES IN BENEFIT PLANS; ERISA COMPLIANCE.

(a) Except as disclosed in the Capital SEC Documents or on Schedule 5.12(a) and except as permitted by Section 7.1 (for the purpose of this sentence, as if Section 7.1 had been in effect since December 31, 2002), since the date of the most recent audited financial statements included in the Capital SEC Documents, there has not been any adoption or amendment by Capital or any Capital Subsidiary of any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other employee benefit plan, arrangement or understanding (whether or not legally binding, or oral or in writing) providing benefits to any current or former employee, officer or director of Capital, any Capital Subsidiary or any person affiliated with Capital under Section 414(b),
(c), (m) or (o) of the Code (collectively, "Capital Benefit Plans").

(b) Except as described in the Capital SEC Documents or on Schedule 5.12(b) or as would not have a Capital Material Adverse Effect, (i) all Capital Benefit Plans, including any such plan that is an "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), are in material compliance with all applicable requirements of law, including ERISA and the Code, and (ii) neither Capital nor any Capital Subsidiary has any liabilities or obligations with respect to any such Capital Benefit Plan, whether accrued, contingent or otherwise, nor to the knowledge of Capital are any such liabilities or obligations expected to be incurred. Except as set forth on Schedule 5.12(b), the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Capital Benefit Plan, policy, arrangement or agreement or any trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee or director. The only severance agreements or severance policies applicable to Capital or the Capital Subsidiaries are the agreements and policies specifically referred to on Schedule 5.12 (b).

5.13. PROPERTIES. Except as provided on Schedule 5.13, Capital or one of the Capital Subsidiaries own fee simple title to each of the real properties identified on Schedule 5.13 (the "Capital Properties"), which are all of the real estate properties owned by them, in each case (except as provided below) free and clear of Liens. To Capital's knowledge, the Capital Properties are not subject to any rights of way, written agreements, laws, ordinances and regulations affecting building use or occupancy, or reservations of an interest on title (collectively, "Property Restrictions"), except for (i) Liens and Property Restrictions set forth on Schedule 5.13, (ii) Property Restrictions imposed or promulgated by law or any governmental body or authority with respect to real property, including zoning regulations, provided they do not materially adversely affect the current use of any Capital Property, (iii) Liens and Property Restrictions disclosed on existing title reports or existing surveys (in either case copies of which title reports and surveys have been delivered or made available to Capital) and (iv) mechanics', carriers', workmen's, repairmen's liens and other Liens, Property Restrictions and other limitations of any kind, if any, which, individually or in the aggregate, are not substantial in amount, do not materially detract from the value of or materially interfere with the present use of any of the Capital Properties subject thereto or affected thereby, and do not otherwise have a Capital Material Adverse Effect and which have arisen or been incurred only in the ordinary course of business. Except as provided on Schedule 5.13, valid policies of title insurance have been issued insuring Capital's fee simple title to the Capital Properties in amounts at least equal to the purchase price thereof, subject only to the matters disclosed above and on Schedule 5.13, and such policies are, at the date hereof, in full force and effect and no material claim has been made against any such policy. Except as provided on Schedule 5.13, (i) Capital has no knowledge that any certificate, permit or license from any governmental authority having jurisdiction over any of the Capital Properties or any agreement, easement or other right which is necessary to permit the lawful use and operation of the buildings and improvements on any of the Capital Properties or which is necessary to permit the lawful use and operation of all driveways, roads and other means of egress and ingress to and from any of the Capital Properties has not been obtained and is not in full force and effect, or of any pending threat of modification or cancellation of any of same and (ii) Capital has not received written notice of any violation of any federal, state or municipal law, ordinance, order, regulation or requirement affecting any portion of any of the Capital Properties issued by any governmental authority. Neither Capital nor any of the Capital Subsidiaries has received written notice to the effect that (A) any condemnation or rezoning proceedings are pending or threatened with respect to any of the Capital Properties or (B) any zoning, building or similar law, code, ordinance, order or regulation is or will be violated by the continued maintenance, operation or use of any buildings or other improvements on any of the Capital Properties or by the continued maintenance, operation or use of the parking areas. All work to be performed, payments to be made and actions to be taken by Capital or the Capital Subsidiaries prior to the date hereof pursuant to any agreement entered into with a governmental body or authority in connection with a site approval, zoning reclassification or other similar action relating to the Capital Properties has been performed, paid or taken, as the case may be, and Capital has no knowledge of any planned or proposed work, payments or actions that may be required after the date hereof pursuant to such agreements.

5.14. TAXES.

(a) Except as disclosed in the Capital SEC Documents or on Schedule 5.14, each of Capital and each Capital Subsidiary has (i) timely filed all Tax returns and reports required to be filed by it (after giving effect to any filing extension properly granted by a Governmental Entity having authority to do so) and all such returns and reports are accurate and complete in all material respects and (ii) timely paid (or Capital has paid on its behalf) all Taxes shown on such returns and reports as required to be paid by it, and the most recent financial statements contained in the Capital SEC Documents reflect an adequate reserve for all material Taxes payable by Capital (and by those Capital Subsidiaries whose financial statements are contained therein) for all taxable periods and portions thereof through the date of such financial statements. True, correct and complete copies of all federal, state and local Tax returns and reports for Capital and each Capital Subsidiary for all taxable years for which the statutory periods of limitation have not yet expired, and all written communications relating thereto, have been delivered or made available to representatives of Trust. Since the Capital Financial Statement Date, neither Capital nor any Capital Subsidiary has incurred any liability for taxes under Sections 852, 860 or 4982 of the Code, and neither Capital nor any Capital Subsidiary has incurred any material liability for Taxes other than in the ordinary course of business. To the knowledge of Capital, no event has occurred, and no condition or circumstance exists, which presents a material risk that any material Tax described in the preceding sentence will be imposed upon Capital. Except as set forth on Schedule 5.14, to the knowledge of Capital, no deficiencies for any Taxes have been proposed, asserted or assessed against Capital or any of the Capital Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending. As used in this Agreement, "Taxes" shall include all federal, state, local and foreign income, property, sales, excise and other taxes, tariffs or governmental charges of any nature whatsoever, together with penalties, interest or additions to Tax with respect thereto.

(b) Capital and each RIC Capital Subsidiary (i)(A) is, and since its formation has elected to be, treated as a "regulated investment company" within the meaning of Section 851 of the Code ("RIC"), and is, and since its formation has been, entitled to the benefits available under the provisions of Part I of Subchapter M of Chapter 1 of the Code ("Part I") and (B) has paid dividends during each of its taxable years for which the statute of limitations has not expired in amounts sufficient to reduce its income and excise tax liabilities for such years to zero, (ii) has operated, and intends to continue to operate, in such a manner as to qualify as a RIC for the taxable year ending December 31, 2003 (and/or the short taxable year of Capital and of WFCC beginning on January 1, 2003 and ending as of the Effective Time) and (iii) has not taken or omitted to take any action which would reasonably be expected to result in a challenge to its status as a RIC, and to Capital's knowledge, no such challenge is pending or threatened. Each Capital Subsidiary which is a partnership, joint venture or limited liability company since its formation has been and continues to be treated for federal income tax purposes as a partnership and not as a corporation or an association taxable as a corporation.

5.15. NO PAYMENTS TO EMPLOYEES, OFFICERS OR DIRECTORS. Except as set forth on Schedule 5.15 or as otherwise specifically provided for in this Agreement, there is no employment or severance contract, or other agreement requiring payments to be made or increasing any amounts payable thereunder on a change of control or otherwise as a result of the consummation of any of the Transactions, with respect to any employee, officer or director of Capital or any Capital Subsidiary.

5.16. BROKERS; SCHEDULE OF FEES AND EXPENSES. No broker, investment banker, financial advisor or other person, other than A.G. Edwards & Sons, Inc. ("A.G. Edwards"), the fees and expenses of which have previously been disclosed to Trust and will be paid by Capital, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Capital or any Capital Subsidiary.

5.17. COMPLIANCE WITH LAWS. To the knowledge of Capital, except as disclosed in the Capital SEC Documents and except as set forth on Schedule 5.17, neither Capital nor any of the Capital Subsidiaries has violated or failed to comply with any statute, law, ordinance, regulation, rule, judgment, decree or order of any Governmental Entity applicable to its business, properties or operations, except for violations and failures to comply that would not, individually or in the aggregate, reasonably be expected to result in a Capital Material Adverse Effect.

5.18. CONTRACTS; DEBT INSTRUMENTS. To the knowledge of Capital, neither Capital nor any Capital Subsidiary is in violation of or in default under (nor does there exist any condition which upon the passage of time or the giving of notice or both would cause such a violation of or default under) any material loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other material contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound, except as set forth on Schedule 5.18 and except for violations or defaults that would not, individually or in the aggregate, result in a Capital Material Adverse Effect.

5.19. OPINION OF FINANCIAL ADVISOR. Capital has received the opinion of A.G. Edwards, satisfactory to Capital, a copy of which has been provided to Trust, to the effect that the Exchange Ratio provided for in this Agreement in connection with the exchange of the Merger Consideration for Capital Common Stock is fair to the shareholders of Capital from a financial point of view.

5.20. TAKEOVER STATUTES. Capital has taken all action necessary, if any, to exempt transactions between Trust and Capital and their affiliates from the operation of any "fair price," "moratorium," "control share acquisition" or any other anti-takeover statute or similar statute enacted under the state or federal laws of the United States or similar statute or regulation (a "Takeover Statute").

5.21. REGISTRATION STATEMENT AND PROXY STATEMENT. The information supplied or to be supplied by Capital or any of the Capital Subsidiaries for inclusion in (a) the Registration Statement (as defined in Section 6.5 hereof) will not at the time of filing or at the time the Registration Statement becomes effective under the Securities Act contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) the Proxy Statement, including any amendments and supplements thereto, will not, either at the date the Proxy Statement is mailed to shareholders of Capital or at the time of the Capital Shareholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Proxy Statement will comply as to form in all material respects with all applicable laws, including the provisions of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, except that no representation is made by Capital with respect to information supplied by Trust for inclusion therein.

5.22. VOTE REQUIRED. The affirmative vote of at least a majority of the outstanding shares of Capital Common Stock is the only vote of the holders of any class or series of Capital's capital stock necessary (under applicable law or otherwise) to approve this Agreement and the Transactions.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF TRUST

Except as set forth in the disclosure schedules attached hereto (the "Trust Disclosure Schedules" and, collectively with the Capital Disclosure Schedules, the "Schedules"), which shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article VI and that may be amended from time to time pursuant to the provisions hereof, Trust represents and warrants to Capital as follows:

6.1. ORGANIZATION, STANDING AND POWER OF TRUST. Trust is a real estate investment trust duly organized and validly existing under the laws of the State of Texas and has the requisite power and authority to carry on its business as now being conducted. Trust is duly qualified or licensed to do business and, where applicable, is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a material adverse effect on the business, properties, assets, financial condition or results of operations of Trust and the Trust Subsidiaries taken as a whole but excluding therefrom any such change, effect, event, occurrence or state of facts resulting from or arising in connection with (a) changes or conditions generally affecting the industries in which the Trust operates, (b) this Agreement, the transactions contemplated hereby or the announcement thereof or (c) any change or effect resulting from any change in general economic conditions (a "Trust Material Adverse Effect"). Trust has delivered to Capital or its counsel complete and correct copies of its Declaration of Trust and Bylaws, as amended to the date of this Agreement.

6.2. TRUST SUBSIDIARIES. Schedule 6.2 hereto sets forth each Trust Subsidiary and the ownership interest therein of Trust. Except as set forth on Schedule 6.2, (a) all the outstanding shares of capital stock of each Trust Subsidiary that is a corporation have been validly issued and are fully paid and nonassessable, are owned by Trust or by another Trust Subsidiary free and clear of all Liens and (b) all equity interests in each Trust Subsidiary that is a partnership, joint venture, limited liability company or trust are owned by Trust, by another Trust Subsidiary, by Trust and another Trust Subsidiary or by two or more Trust Subsidiaries free and clear of all Liens. Except for the capital stock of or other equity or ownership interests in Trust Subsidiaries, and except as set forth on Schedule 6.2, Trust does not own, directly or indirectly, any capital stock or other ownership interest in any Person. Each Trust Subsidiary that is a corporation is duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has the requisite corporate power and authority to carry on its business as now being conducted, and each Trust Subsidiary that is a partnership, limited liability company or trust is duly organized and validly existing under the laws of its jurisdiction of organization and has the requisite power and authority to carry on its business as now being conducted. Except as set forth on Schedule 6.2, each Trust Subsidiary is duly qualified or licensed to do business and, where applicable, is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Trust Material Adverse Effect.

6.3. CAPITAL STRUCTURE. The authorized capital of Trust consists of 100,000,000 shares of beneficial interest, consisting of Trust Common Shares and preferred shares, par value $.01 per share (the "Preferred Shares"). On the date hereof, (a) 6,446,291 Trust Common Shares and no Preferred Shares were issued and outstanding, (b) 132,850 Trust Common Shares and no Preferred Shares were held by Trust in its treasury and (c) 204,426 Trust Common Shares were issuable upon exercise of outstanding options to acquire Trust Common Shares (the "Trust Options"). On the date of this Agreement, except as set forth above in this Section 6.3, no capital shares or other voting securities of Trust were issued, reserved for issuance or outstanding. There are no outstanding share appreciation rights relating to the capital shares of Trust. All outstanding capital shares of Trust are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of Trust having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which shareholders of Trust may vote. Except (i) for the Trust Options or (ii) as set forth on Schedule 6.3, as of the date of this Agreement there are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Trust or any Trust Subsidiary is a party or by which such entity is bound, obligating Trust or any Trust Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock, voting securities or other ownership interests of Trust or any Trust Subsidiary or obligating Trust or any Trust Subsidiary to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking (other than to Trust or an Trust Subsidiary). Except as set forth on Schedule 6.3, there are no outstanding contractual obligations of Trust or any Trust Subsidiary to repurchase, redeem or otherwise acquire any capital shares of Trust or any capital stock, voting securities or other ownership interests in any Trust Subsidiary or make any material investment (in the form of a loan, capital contribution or otherwise) in any person (other than a Trust Subsidiary).

6.4. AUTHORITY; NONCONTRAVENTION. Trust has the requisite power and authority to enter into this Agreement and, subject to approval of this Agreement by the vote of the holders of the Trust Common Shares required to approve this Agreement and the transactions contemplated hereby (the "Trust Shareholder Approvals" and, together with the Capital Shareholder Approvals, the "Shareholder Approvals"), to consummate the transactions contemplated by this Agreement to which Trust is a party. The execution and delivery of this Agreement by Trust and the consummation by Trust of the transactions contemplated by this Agreement to which Trust is a party have been duly authorized by all necessary action on the part of Trust, subject to approval of this Agreement pursuant to Trust Shareholder Approvals. Except as set forth on

Schedule 6.4, the execution and delivery of this Agreement by Trust do not, and the consummation of the transactions contemplated by this Agreement to which Trust is a party and compliance by Trust with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Trust or any Trust Subsidiary under, (a) the Declaration of Trust or the Bylaws of Trust or the comparable charter or organizational documents or partnership or similar agreement (as the case may be) of any Trust Subsidiary, (b) any loan or credit agreement, note, bond, mortgage, indenture, reciprocal easement agreement, lease or other agreement, instrument, permit, concession, contract, franchise or license applicable to Trust or any Trust Subsidiary or their respective properties or assets or (c) subject to the governmental filings and other matters referred to in Section 6.5, any Laws applicable to Trust or any Trust Subsidiary, or their respective properties or assets, other than, in the case of clause (b) or (c), any such conflicts, violations, defaults, rights or Liens that individually or in the aggregate would not (i) have a Trust Material Adverse Effect or (ii) prevent the consummation of the Transactions.

6.5. CONSENTS. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Trust or any Trust Subsidiary in connection with the execution and delivery of this Agreement by Trust or the consummation by Trust of the transactions contemplated by this Agreement, except for (a) the filing by any person in connection with any of the Transactions of a pre-merger notification and report form under the HSR Act, to the extent applicable; (b) compliance with any applicable requirements of (i) the Securities Act and the rules and regulations promulgated thereunder, including, without limitation, the filing with the SEC of a registration statement on Form S-4 (or other appropriate form) in connection with the registration of the Trust Common Shares to be issued in the Merger (as amended from time to time, the "Registration Statement"), (ii) the Exchange Act and the rules and regulations promulgated thereunder, including, without limitation, the filing with the SEC of the Joint Proxy Statement/Prospectus, (iii) the 1940 Act and the rules and regulations promulgated thereunder and (iv) the Investment Advisers Act and the rules and regulations promulgated thereunder; (c) the filing of Articles of Merger with the Secretary of State of the State of Florida and the Dallas County Clerk, Dallas, Texas; (d) compliance with any applicable requirements of the 1958 Act, the Small Business Investment Act and any other applicable requirements, rules, or regulations of the of the SBA; and (e) such other consents, approvals, orders, authorizations, registrations, declarations and filings (i) as are set forth on Schedule 6.5, (ii) as may be required under (A) federal, state or local environmental laws or (B) the "blue sky" laws of various states or (iii) which, if not obtained or made, would not prevent or delay in any material respect the consummation of any of the transactions contemplated by this Agreement or otherwise prevent Trust from performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Trust Material Adverse Effect.

6.6. SEC DOCUMENTS; FINANCIAL STATEMENTS; UNDISCLOSED LIABILITIES. Trust has filed all required reports, schedules, forms, statements and other documents with the SEC since December 31, 2001 (the "Trust SEC Documents"). All of the Trust SEC Documents (other than preliminary material), as of their respective filing dates, complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and, in each case, the rules and regulations promulgated thereunder applicable to such the Trust SEC Documents. None of the Trust SEC Documents at the time of filing and effectiveness contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent such statements have been modified or superseded by later the Trust SEC Documents. The consolidated financial statements of Trust included in the Trust SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented, in accordance with the applicable requirements of GAAP, the financial position of Trust as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the Trust SEC Documents, on Schedule 6.6 or as permitted by Section 7.2 (for the purposes of this sentence, as if Section 7.2 had been in effect since December 31, 2002), neither Trust nor any Trust Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of Trust or, to the knowledge of Trust, of any unconsolidated Trust Subsidiary or in the notes thereto and which, individually or in the aggregate, would have a Trust Material Adverse Effect.

6.7. BINDING EFFECT. This Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, Trust enforceable against Trust in accordance with its terms as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether such enforcement is sought in a proceeding in equity or at law).

6.8. ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as disclosed in the Trust SEC Documents or on Schedule 6.8, since the date of the most recent financial statements included in the Trust SEC Documents (the "Trust Financial Statement Date") and to the date of this Agreement, Trust and the Trust Subsidiaries have conducted their business only in the ordinary course and there has not been (a) any change that would have a Trust Material Adverse Effect (a "Trust Material Adverse Change"), nor has there been any occurrence or circumstance that with the passage of time would reasonably be expected to result in a Trust Material Adverse Change, (b) except for regular quarterly dividends not in excess of $0.40 per Trust Common Share, any declaration, setting aside or payment of any dividend or other distribution (whether in cash, shares or property) with respect to any of Trust's capital shares, other than any dividend paid pursuant to Section 4.3, (c) any split, combination or reclassification of any of Trust's capital shares or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for, or giving the right to acquire by exchange or exercise, of its capital shares or any issuance of an ownership interest in, any Trust Subsidiary except as permitted by Section 7.2, (d) any damage, destruction or loss, not covered by insurance, that has or would have a Trust Material Adverse Effect or (e) any change in accounting methods, principles or practices by Trust or any Trust Subsidiary, except insofar as may have been disclosed in the Trust SEC Documents or required by a change in GAAP.

6.9. LITIGATION. Except as disclosed in the Trust SEC Documents or on Schedule 6.9, and other than personal injury and other routine litigation arising from the ordinary course of operations of Trust and the Trust Subsidiaries, there is no suit, action or proceeding pending or threatened in writing against or affecting Trust or any Trust Subsidiary that, individually or in the aggregate, could reasonably be expected to (i) have a Trust Material Adverse Effect or (ii) prevent the consummation of any of the Transactions, nor is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against Trust or any Trust Subsidiary having, or which, insofar as reasonably can be foreseen, in the future would have, a Trust Material Adverse Effect any such effect.

6.10. ENVIRONMENTAL MATTERS. Except (a) as disclosed in the Trust SEC Documents or as set forth on Schedule 6.10, (b) for matters that, individually or in the aggregate, could not reasonably be expected to have a Trust Material Adverse Effect or (c) for commercially reasonable quantities of leasing and office supplies, Trust has never generated, transported, used, stored, treated, disposed of or managed any Hazardous Substance and to the knowledge of Trust,
(i) Trust does not have any material liability under, nor has Trust ever violated in any material respect, any Environmental, Health and Safety Law; (ii) to Trust's knowledge, Trust is in compliance in all material respects with all applicable Environmental, Health and Safety Laws; and (iii) Trust has never entered into nor been subject to any judgment, consent decree, compliance order, or administrative order with respect to any environmental or health and safety matter nor received any demand letter, formal complaint or claim with respect to any environmental or health and safety matter or the enforcement of any Environmental, Health and Safety Law.

6.11. RELATED PARTY TRANSACTIONS. Set forth on Schedule 6.11 is a list of all arrangements, agreements and contracts entered into by Trust or any of the Trust Subsidiaries with any person who is an officer, trust manager, director or affiliate of Trust or any of the Trust Subsidiaries, any relative of any of the foregoing or any entity of which any of the foregoing is an affiliate. Such documents, copies of all of which have previously been delivered or made available to Capital, are listed on Schedule 6.11.

6.12. PROPERTIES. Except as provided on Schedule 6.12, Trust or one of the Trust Subsidiaries own fee simple title to each of the real properties identified on Schedule 6.12 (the "Trust Properties"), which are all of the real estate properties owned by them, in each case (except as provided below) free and clear of Liens. To Trust's knowledge, the Trust Properties are not subject to any Property Restrictions, except for (i) Liens and Property Restrictions set forth on Schedule 6.12, (ii) Property Restrictions imposed or promulgated by law or any governmental body or authority with respect to real property, including zoning regulations, provided they do not materially adversely affect the current use of any Trust Property, (iii) Liens and Property Restrictions disclosed on existing title reports or existing surveys (in either case copies of which title reports and surveys have been delivered or made available to Capital) and (iv) mechanics', carriers', workmen's, repairmen's liens and other Liens, Property Restrictions and other limitations of any kind, if any, which, individually or in the aggregate, are not substantial in amount, do not materially detract from the value of or materially interfere with the present use of any of the Trust Properties subject thereto or affected thereby, and do not otherwise have a Trust Material Adverse Effect and which have arisen or been incurred only in the ordinary course of business. Except as provided on Schedule 6.12, valid policies of title insurance have been issued insuring Trust's fee simple title to the Trust Properties in amounts at least equal to the purchase price thereof, subject only to the matters disclosed above and on Schedule 6.12, and such policies are, at the date hereof, in full force and effect and no material claim has been made against any such policy. Except as provided on Schedule 6.12, (i) Trust has no knowledge that any certificate, permit or license from any governmental authority having jurisdiction over any of the Trust Properties or any agreement, easement or other right which is necessary to permit the lawful use and operation of the buildings and improvements on any of the Trust Properties or which is necessary to permit the lawful use and operation of all driveways, roads and other means of egress and ingress to and from any of the Trust Properties has not been obtained and is not in full force and effect, or of any pending threat of modification or cancellation of any of same and (ii) Trust has not received written notice of any violation of any federal, state or municipal law, ordinance, order, regulation or requirement affecting any portion of any of the Trust Properties issued by any governmental authority. Neither Trust nor any of the Trust Subsidiaries has received written notice to the effect that (A) any condemnation or rezoning proceedings are pending or threatened with respect to any of the Trust Properties or (B) any zoning, building or similar law, code, ordinance, order or regulation is or will be violated by the continued maintenance, operation or use of any buildings or other improvements on any of the Trust Properties or by the continued maintenance, operation or use of the parking areas. All work to be performed, payments to be made and actions to be taken by Trust or the Trust Subsidiaries prior to the date hereof pursuant to any agreement entered into with a governmental body or authority in connection with a site approval, zoning reclassification or other similar action relating to the Trust Properties has been performed, paid or taken, as the case may be, and Trust has no knowledge of any planned or proposed work, payments or actions that may be required after the date hereof pursuant to such agreements.

6.13. TAXES.

(a) Except as disclosed in the Trust SEC Documents or on Schedule 6.13, each of Trust and each Trust Subsidiary has (i) timely filed all Tax returns and reports required to be filed by it (after giving effect to any filing extension properly granted by a Governmental Entity having authority to do so) and all such returns and reports are accurate and complete in all material respects and (ii) timely paid (or Trust has paid on its behalf) all Taxes shown on such returns and reports as required to be paid by it, and the most recent financial statements contained in the Trust SEC Documents reflect an adequate reserve for all material Taxes payable by Trust (and by those Trust Subsidiaries whose financial statements are contained therein) for all taxable periods and portions thereof through the date of such financial statements. True, correct and complete copies of all federal, state and local Tax returns and reports for Trust and each Trust Subsidiary for all taxable years for which the statutory periods of limitation have not yet expired, and all written communications relating thereto, have been delivered or made available to representatives of Trust. Since the Trust Financial Statement Date, Trust has incurred no liability for taxes under Sections 857, 860 or 4981 of the Code, and neither Trust nor any Trust Subsidiary has incurred any material liability for Taxes other than in the ordinary course of business. To the knowledge of Trust, no event has occurred, and no condition or circumstance exists, which presents a material risk that any material Tax described in the preceding sentence will be imposed upon Trust. Except as set forth on Schedule 6.13, to the knowledge of Trust, no deficiencies for any Taxes have been proposed, asserted or assessed against Trust or any of the Trust Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending.

(b) Trust (i)(A) is, and since its formation has been, a "real estate investment trust" within the meaning of Section 856(a) of the Code ("REIT"), and is, and since its formation has been, entitled to the benefits available under the provisions of Part II of Subchapter M of Chapter 1 of the Code ("Part II") and (B) has paid dividends during each of its taxable years for which the statute of limitations has not expired in amounts sufficient to reduce its income and excise tax liabilities for such years to zero, (ii) has operated, and intends to continue to operate, in such a manner as to qualify as a REIT for the taxable year ending December 31, 2003, and (iii) has not taken or omitted to take any action which would reasonably be expected to result in a challenge to its status as a REIT, and to Trust's knowledge, no such challenge is pending or threatened. Each Trust Subsidiary which is a partnership, joint venture or limited liability company since its formation has been and continues to be treated for federal income tax purposes as a partnership and not as a corporation or an association taxable as a corporation.

6.14. NO PAYMENTS TO EMPLOYEES, OFFICERS OR TRUST MANAGERS. Except as set forth on Schedule 6.14 or as otherwise specifically provided for in this Agreement, there is no employment or severance contract, or other agreement requiring payments to be made or increasing any amounts payable thereunder on a change of control or otherwise as a result of the consummation of any of the Transactions, with respect to any employee, officer, trust manager or director of Trust or any Trust Subsidiary.

6.15. EMPLOYEES. Neither Trust or any Trust Subsidiary has any employees and is not a party to any agreement (other than this Agreement) that would obligate it to hire any employees or enter into any employment arrangements.

6.16. BROKERS; SCHEDULE OF FEES AND EXPENSES. No broker, investment banker, financial advisor or other person, other than U.S. Bancorp Piper Jaffray ("Piper Jaffray"), the fees and expenses of which have previously been disclosed to Capital and will be paid by Trust, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Trust or any Trust Subsidiary.

6.17. COMPLIANCE WITH LAWS. To the knowledge of Trust, except as disclosed in the Trust SEC Documents and except as set forth on Schedule 6.17, neither Trust nor any of the Trust Subsidiaries has violated or failed to comply with any statute, law, ordinance, regulation, rule, judgment, decree or order of any Governmental Entity applicable to its business, properties or operations, except for violations and failures to comply that would not, individually or in the aggregate, reasonably be expected to result in a Trust Material Adverse Effect.

6.18. CONTRACTS; DEBT INSTRUMENTS. To the knowledge of Trust, neither Trust nor any Trust Subsidiary is in violation of or in default under (nor does there exist any condition which upon the passage of time or the giving of notice or both would cause such a violation of or default under) any material loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other material contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound, except as set forth on Schedule 6.18 and except for violations or defaults that would not, individually or in the aggregate, result in a Trust Material Adverse Effect.

6.19. OPINION OF FINANCIAL ADVISOR. Trust has received the opinion of Piper Jaffray, satisfactory to Trust, a copy of which has been provided to Capital, to the effect that the Exchange Ratio provided for in this Agreement in connection with the exchange of the Merger Consideration for Capital Common Stock is fair to the shareholders of Trust from a financial point of view.

6.20. TAKEOVER STATUTES. Trust has taken all action necessary, if any, to exempt transactions between Trust and Trust and its affiliates from the operation of any Takeover Statute.

6.21. REGISTRATION STATEMENT AND PROXY STATEMENT. The information supplied or to be supplied by Trust or any of the Trust Subsidiaries for inclusion in (a) the Registration Statement will not at the time of filing or at the time the Registration Statement becomes effective under the Securities Act contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) the Proxy Statement, including any amendments and supplements thereto, will not, either at the date the Proxy Statement is mailed to shareholders of Trust or at the time of the Trust Shareholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Registration Statement and the Proxy Statement will each to comply as to form in all material respects with all applicable laws, including the provisions of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, except that no representation is made by Trust with respect to information supplied by Capital for inclusion therein.

6.22. VOTE REQUIRED. The affirmative vote of at least two-thirds of the outstanding Trust Common Shares is the only vote of the holders of any class or series of Trust's capital shares necessary (under applicable law or otherwise) to approve this Agreement and the Transactions.

ARTICLE VII

COVENANTS

7.1. CONDUCT OF BUSINESS BY CAPITAL. During the period from the date of this Agreement to the Effective Time, Capital shall, and shall cause (or, in the case of the Capital Subsidiaries that Capital does not control, shall use commercially reasonable efforts to cause) the Capital Subsidiaries each to, carry on its businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent therewith, use commercially reasonable efforts to preserve intact its current business organization, goodwill and ongoing businesses. Without limiting the generality of the foregoing, the following additional restrictions shall apply: During the period from the date of this Agreement to the Effective Time, except as set forth in Schedule 7.1 hereto, Capital shall not and shall cause (or, in the case of the Capital Subsidiaries that Capital does not control, shall use commercially reasonable efforts to cause) the Capital Subsidiaries not to (and not to authorize or commit or agree to):

(a) (i) except for its regular quarterly dividends not in excess of $0.12 per share of Capital Common Stock in each case with the same record and payment dates as the record and payment dates relating to dividends payable on the Trust Common Shares during such calendar quarters (as previously disclosed by Trust), declare, set aside or pay any dividends on, or make any other distributions in respect of any of Capital's capital stock other than the dividend required to be paid pursuant to Section 4.3, if any, (ii) split, combine or reclassify any capital stock or partnership interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of such capital stock or partnership interests or (iii) purchase, redeem or otherwise acquire any shares of capital stock of Capital or any options, warrants or rights to acquire, or security convertible into, shares of such capital stock;

(b) except as required pursuant to the exercise of stock options or issuance of shares pursuant to stock rights or warrants outstanding on the date of this Agreement, issue, deliver or sell, or grant any option or other right in respect of, any shares of capital stock, any other voting securities of Capital or any Capital Subsidiary or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities except to Capital or a Capital Subsidiary;

(c) except as otherwise contemplated by this Agreement, amend the articles or certificate of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of Capital or any Capital Subsidiary;

(d) merge or consolidate with any Person;

(e) make any tax election or take any other action (or fail to take any action) that would result in Capital no longer qualifying as a RIC or no longer being entitled to the benefit of the provisions of Part I;

(f) sell or otherwise dispose of any asset or property except in the ordinary course of business consistent with past practice;

(g) amend any material contract, instrument or other agreement;

(h) acquire any assets other than in the ordinary course of business;

(i) incur, in any transaction or series of related transactions, any liabilities in excess of $5,000,000 and excluding any liability described on Schedule 7.1;

(j) except as provided in this Agreement, adopt any new employee benefit plan, incentive plan, severance plan, stock option or similar plan, grant new stock appreciation rights or amend any existing plan or rights, except such changes as are required by law or which are not more favorable to participants than provisions presently in effect; and

(k) settle any shareholder derivative or class action claims arising out of or in connection with any of the Transactions.

7.2. CONDUCT OF BUSINESS BY TRUST. During the period from the date of this Agreement to the Effective Time, Trust shall, and shall cause (or, in the case of Trust Subsidiaries that Trust does not control, shall use commercially reasonable efforts to cause) the Trust Subsidiaries each to carry on its businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent therewith, use commercially reasonable efforts to preserve intact its current business organization, goodwill and ongoing businesses. Without limiting the generality of the foregoing, the following additional restrictions shall apply: During the period from the date of this Agreement to the Effective Time, except as set forth in Schedule 7.2 hereto, Trust shall not and shall cause (or, in the case of the Trust Subsidiaries that Trust does not control, shall use commercially reasonable efforts to cause) the Trust Subsidiaries not to (and not to authorize or commit or agree to):

(a) (i) except for its regular quarterly dividends not in excess of $0.40 per Trust Common Share with customary record and payment dates, declare, set aside or pay any dividends on, or make any other distributions in respect of any of Trust's capital shares other than the dividend required to be paid pursuant to Section 4.3, if any, (ii) split, combine or reclassify any capital shares or partnership interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for such capital shares or partnership interests or (iii) purchase, redeem or otherwise acquire any capital shares of Trust or any options, warrants or rights to acquire, or security convertible into, such capital shares;

(b) except as required pursuant to the exercise of options or the issuance of shares pursuant to share rights or warrants outstanding on the date of this Agreement, issue, deliver or sell, or grant any option or other right in respect of, any capital shares, any other voting securities of Trust or any Trust Subsidiary or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities except to Trust or an Trust Subsidiary;

(c) except as otherwise contemplated by this Agreement, amend the declaration of trust, articles or certificate of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of Trust or any Trust Subsidiary;

(d) merge or consolidate with any Person;

(e) make any tax election or take any other action (or fail to take any action) that would result in Trust no longer qualifying as a REIT or no longer being entitled to the benefit of the provisions of Part II;

(f) sell or otherwise dispose of any asset or property except in the ordinary course of business consistent with past practice;

(g) amend any material contract, instrument or other agreement;

(h) acquire any assets other than in the ordinary course of business;

(i) incur, in any transaction or series of related transactions, any liabilities in excess of $5,000,000 and excluding any liability described on Schedule 7.2;

(j) except as provided in this Agreement, adopt any new employee benefit plan, incentive plan, severance plan, stock option or similar plan, grant new stock appreciation rights or amend any existing plan or rights, except such changes as are required by law or which are not more favorable to participants than provisions presently in effect; and

(k) settle any shareholder derivative or class action claims arising out of or in connection with any of the Transactions.

7.3. OTHER ACTIONS. Each of Capital on the one hand and Trust on the other hand shall not and shall use commercially reasonable efforts to cause its respective subsidiaries not to take any action that would result in (a) any of the representations and warranties of such party (without giving effect to any "knowledge" qualification) set forth in this Agreement that are qualified as to materiality becoming untrue, (b) any of such representations and warranties (without giving effect to any "knowledge" qualification) that are not so qualified becoming untrue in any material respect or (c) except as contemplated by Section 10.1, any of the conditions to the Merger set forth in Article IX not being satisfied.

ARTICLE VIII

ADDITIONAL COVENANTS

8.1. PREPARATION OF THE REGISTRATION STATEMENT AND THE PROXY STATEMENT; CAPITAL SHAREHOLDERS MEETING AND TRUST SHAREHOLDERS MEETING.

(a) As soon as practicable following the date of this Agreement, Capital and Trust shall prepare and file with the SEC a preliminary Proxy Statement in form and substance satisfactory to each of Trust and Capital, and Trust shall prepare and file with the SEC the Registration Statement, in which the Proxy Statement will be included as a prospectus. Each of Capital and Trust shall use commercially reasonable efforts to (i) respond to any comments of the SEC and (ii) have the Registration Statement declared effective under the Securities Act and the rules and regulations promulgated thereunder as promptly as practicable after such filing and to keep the Registration Statement effective as long as is reasonably necessary to consummate the Merger. Each of Capital and Trust will use commercially reasonable efforts to cause the Proxy Statement to be mailed to Capital's shareholders or Trust's shareholders, respectively, as promptly as practicable after the Registration Statement is declared effective under the Securities Act. Each party will notify the other promptly of the receipt of any comments from the SEC and of any request by the SEC for amendments or supplements to the Registration Statement or the Proxy Statement or for additional information and will supply the other with copies of all correspondence between such party or any of its representatives and the SEC, with respect to the Registration Statement or the Proxy Statement. The Registration Statement and the Proxy Statement shall comply in all material respects with all applicable requirements of law. Whenever any event occurs which is required to be set forth in an amendment or supplement to the Registration Statement or the Proxy Statement, Trust or Capital, as the case may be, shall promptly inform the other of such occurrences and cooperate in filing with the SEC and/or mailing to the shareholders of Trust and the shareholders of Capital such amendment or supplement. The Proxy Statement shall include the recommendations of the Board of Trust Managers of Trust in favor of the issuance of Trust Common Shares and of the Board of

Directors of Capital in favor of the Merger, provided that the recommendation of the Board of Trust Managers of Trust or Board of Directors of Capital may not be included or may be withdrawn if the Board of Trust Managers of Trust or Board of Directors of Capital, as applicable, has accepted a proposal for a Superior Competing Transaction (as defined below) in accordance with the terms of Section 10.1. Trust also shall take any action required to be taken under any applicable state securities or "blue sky" laws in connection with the issuance of Trust Common Shares pursuant to the Merger, and Capital shall furnish all information concerning Capital and the holders of the Capital Common Stock and rights to acquire Capital Common Stock pursuant to the Capital Plan as may be reasonably requested in connection with any such action. Trust will use commercially reasonable efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities or "blue sky" permits or approvals required to carry out the transactions contemplated by this Agreement and will pay or cause an Trust Subsidiary to pay all expenses incident thereto.

(b) Capital will, as soon as practicable following the date of this Agreement (but in no event sooner than 30 days following the date the Proxy Statement is mailed to the shareholders of Capital), duly call, give notice of, convene and hold the Capital Shareholders Meeting for the purpose of obtaining Capital Shareholder Approvals. Capital will, through its Board of Directors, recommend to its shareholders approval of this Agreement and the transactions contemplated by this Agreement, provided that the recommendation of the Board of Directors of Capital may be withdrawn if the Board of Directors of Capital has accepted a proposal for a Superior Competing Transaction (as defined below) in accordance with the terms of Section 10.1.

(c) Trust will, as soon as practicable following the date of this Agreement (but in no event sooner than 30 days following the date the Proxy Statement is mailed to the shareholders of Trust), duly call, give notice of, convene and hold the Trust Shareholders Meeting for the purpose of obtaining the Trust Shareholder Approvals. Trust will, through its Board of Trust Managers, recommend to its shareholders approval of this Agreement and the transactions contemplated by this Agreement, including, but not limited to the requisite vote of such shareholders approving the issuance of the Trust Common Shares in connection with the Merger.

8.2. ACCESS TO INFORMATION; CONFIDENTIALITY. Subject to the requirements of confidentiality agreements with third parties, each of Capital and Trust shall, and shall cause each of its respective subsidiaries (including all the Capital Subsidiaries and all the Trust Subsidiaries) to, afford to the other party and to the officers, employees, accountants, counsel, financial advisors and other representatives of such other party, reasonable access during normal business hours during the period prior to the Effective Time to all their respective properties, books, contracts, commitments, personnel and records and, during such period, each of Capital and Trust shall, and shall cause each of its respective subsidiaries (including all the Capital Subsidiaries and all the Trust Subsidiaries) to, furnish promptly to the other party (a) a copy of each report, schedule, registration statement and other document filed by it during such period pursuant to the requirements of federal or state securities laws and (b) all other information concerning its business, properties and personnel as such other party may reasonably request. Capital, on the one hand, and Trust, on the other hand, shall hold and shall cause their respective consultants and advisors to hold in strict confidence, unless compelled to disclose by judicial or

administrative process or by other requirements of law, all such documents and information concerning the other party furnished it by the other party or its representatives in connection with the transactions contemplated by this Agreement (except to the extent that such information can be shown to have been
(a) previously known by the party to which it was furnished, (b) in the public domain through no fault of such party or (c) later lawfully acquired from other sources by the party to which it was furnished), and each party shall not release or disclose such information to any other person, except its auditors, attorneys, financial advisors and other consultants and advisors in connection with this Agreement. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

8.3. COMMERCIALLY REASONABLE EFFORTS; NOTIFICATION.

(a) Subject to the terms and conditions herein provided, Capital and Trust shall: (a) to the extent required, promptly make their respective filings and thereafter make any other required submissions under the HSR Act with respect to the Merger; (b) use all commercially reasonable efforts to cooperate with one another in (i) determining which filings are required to be made prior to the Effective Time with, and which consents, approvals, permits or authorizations are required to be obtained prior to the Effective Time from, governmental or regulatory authorities of the United States, the several states and foreign jurisdictions and any third parties in connection with the execution and delivery of this Agreement, and the consummation of the transactions contemplated by such agreements and (ii) timely making all such filings and timely seeking all such consents, approvals, permits and authorizations (c) use all commercially reasonable efforts to obtain in writing any consents required from third parties to effectuate the Merger, such consents to be in reasonably satisfactory form to Capital and Trust; and (d) use all commercially reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by this Agreement. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purpose of this Agreement, the proper officers and directors of Capital and Trust shall take all such necessary action.

(b) Trust and Capital shall use commercially reasonable efforts to proceed as promptly as possible to cause the Exemptive Order to be issued and shall negotiate in good faith with each other as to any amendment to this Agreement that may be necessary to comply with any condition of the Exemptive Order that are inconsistent with this Agreement.

(c) Capital shall give prompt notice to Trust, and Trust shall give prompt notice to Capital, if (i) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

8.4. HART-SCOTT-RODINO. Each of Capital and Trust (a) shall use their commercially reasonable efforts to file, and to cause their "ultimate parent entities" to file, as soon as practicable a "Notification and Report Form For Certain Mergers and Acquisitions" under the HSR Act with respect to the Merger and the transactions contemplated hereby, (b) shall take all other actions as may be necessary, desirable or convenient to obtain the required approval under the HSR Act and (c) will comply at the earliest practicable date with any request for additional information received by it from the Federal Trade Commission or the Department of Justice pursuant to the HSR Act.

8.5. SBA APPROVAL. Each of Capital and Trust (a) shall use its commercially reasonable efforts, and shall take all actions as may be necessary, desirable or convenient, to obtain the approval of the SBA with respect to the Merger and the transactions contemplated hereby (the "SBA Approval") and (b) will comply at the earliest practicable date with any request for additional information received by it from the SBA.

8.6. UPDATING SCHEDULES. In connection with the Closing, Capital and Trust will, promptly upon becoming aware of any fact requiring supplementation or amendment of the Schedules, supplement or amend the various Schedules to this Agreement to reflect any matter which, if existing, occurring or known on the date of this Agreement, would have been required to be set forth or described in such Schedules which was or has been rendered inaccurate thereby. No such supplement or amendment to the Schedules shall have any effect for the purpose of determining satisfaction of the conditions set forth in Article IX hereof, or the compliance by any party hereto with its covenants and agreements set forth herein.

8.7. AFFILIATES. Prior to the Closing Date, Capital shall deliver to Trust a letter identifying all persons who are, at the time this Agreement is submitted for approval to the shareholders of Capital, "affiliates" of Capital (as the case may be) for purposes of Rule 145 under the Securities Act. Capital shall use its best efforts to cause each such person to deliver to Trust on or prior to the Closing Date a written agreement substantially in the form attached as Exhibit A hereto.

8.8. TAX TREATMENT. Each of Trust and Capital shall use its reasonable best efforts to cause the Merger to qualify as a reorganization under the provisions of Sections 368(a) of the Code and to obtain the opinions of counsel referred to in Sections 9.2(d) and 9.3(d).

8.9. TRUST BOARD OF TRUST MANAGERS. Trust shall take all steps necessary to increase the number of trust managers of Trust from seven trust managers to nine trust managers effective as of the Effective Time and to fill vacancies in accordance with Section 2.1.

8.10. NO SOLICITATION OF TRANSACTIONS. Subject to Section 10.1, (a) neither Trust nor Capital shall, directly or indirectly, through any officer, trust manager, director, employee, agent, investment banker, financial advisor, attorney, accountant, broker, finder or other representative retained by Trust or Capital, respectively, initiate, solicit or encourage (including by way of furnishing non-public information or assistance) any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Competing Transaction (as defined below), or authorize or permit any of the officers, trust managers, directors, employees or agents of Trust or Capital, respectively, or any attorney, investment banker, financial advisor,

accountant, broker, finder or other representative retained by Trust or Capital to take any such action, (b) Trust or Capital, as applicable, shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Competing Transaction and will take the steps necessary to inform such parties of the obligations undertaken in this Section 8.10 and (c) Trust or Capital, as applicable, shall notify the other in writing (as promptly as practicable) if it receives any inquiries, proposals or requests for information relating to such matters. For purposes of this Agreement, "Competing Transaction" shall mean any of the following with respect to (i) Trust or any of the Trust Subsidiaries or
(ii) Capital or any of the Capital Subsidiaries (other than the transactions contemplated by this Agreement or a transaction with Trust or a Trust Subsidiary): (A) with respect only to either entity or any group of its Subsidiaries (acting in a single transaction or series of related transactions) holding 20% or more of the assets of such entity and its Subsidiaries taken as a whole, any merger, consolidation, share exchange, business combination, or similar transaction; (B) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 20% or more of the assets or equity securities (including, without limitation, partnership interests) of such entity and its Subsidiaries taken as a whole, in a single transaction or series of related transactions, excluding any bona fide financing transactions which do not, individually or in the aggregate, have as a purpose or effect the sale or transfer of control of such assets and excluding any transaction set forth on Schedule 8.10; (C) any tender offer or exchange offer for 20% or more of the outstanding shares of capital stock of such entity; (D) any transaction resulting in the issuance of shares representing 20% or more of the outstanding capital stock or shares of such entity, or the filing of a registration statement under the Securities Act in connection therewith; or (E) any public announcements of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

8.11. PUBLIC ANNOUNCEMENTS. Trust on the one hand and Capital on the other hand will consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the Transactions, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange. The parties agree that the initial press release to be issued with respect to the Transactions will be in the form agreed to by the parties hereto prior to the execution of this Agreement.

8.12. POST-MERGER DIVIDEND. Trust shall declare and pay any dividend necessary in order for it to comply with Section 857(a)(2) of the Code for its 2003 taxable year. Such dividend shall have a record date of the close of business on December 31, 2003.

8.13. LISTING. Trust will promptly prepare and submit to the AMEX a supplemental listing application covering Trust Common Shares issuable in the Merger. Prior to the Effective Time, Trust shall use commercially reasonable efforts to have AMEX approve for listing, upon official notice of issuance, the Trust Common Shares to be issued in the Merger.

8.14. BENEFIT PLANS AND OTHER EMPLOYEE ARRANGEMENTS. As of the Effective Time, Trust shall, assume the Capital Benefit Plans. With respect to any such assumed Capital Benefit Plan which is an "employee benefit plan" as defined in Section 3(3) of ERISA, solely for purposes of determining eligibility to participate, vesting, and entitlement to benefits but not for purposes of accrual of pension benefits, service with Capital or any Capital Subsidiary shall be treated as service with Trust or the Trust Subsidiaries (as applicable); provided, however, that such service shall not be recognized to the extent that such recognition would result in a duplication of benefits (or is not otherwise recognized for such purposes under the Capital Benefit Plans). Except as otherwise provided herein, Trust shall be under no obligation to maintain the compensation and benefits currently provided by Capital to its employees.

8.15. INDEMNIFICATION; DIRECTORS' AND OFFICERS' INSURANCE.

(a) Capital shall, and from and after the Effective Time, Trust shall indemnify, defend and hold harmless each person who is now or has been at any time prior to the date hereof or who becomes prior to the Effective Time, an officer or director of Capital or any Capital Subsidiary (the "Indemnified Parties") against all losses, claims, damages, costs, expenses (including attorneys' fees and expenses), liabilities or judgments or amounts that are paid in settlement of, with the approval of the Indemnifying Party (as defined below) (which approval shall not be unreasonably withheld), or otherwise in connection with any threatened or actual claim, action, suit, proceeding or investigation based on or arising out of the fact that such person is or was a director or officer of Capital or any Capital Subsidiary at or prior to the Effective Time, whether asserted or claimed prior to, or at or after, the Effective Time ("Indemnified Liabilities"), including all Indemnified Liabilities based on, or arising out of, or pertaining to this Agreement or the Transactions, in each case to the full extent permitted under applicable law (and Trust shall pay expenses in advance of the final disposition of any such action or proceeding to each Indemnified Party to the full extent permitted by law subject to the limitations set forth in the fourth sentence of this Section 8.15(a)). Any Indemnified Parties proposing to assert the right to be indemnified under this Section 8.15 shall, promptly after receipt of notice of commencement of any action against such Indemnified Parties in respect of which a claim is to be made under this Section 8.15 against Capital, and from and after the Effective Time, Trust (collectively, the "Indemnifying Parties"), notify the Indemnifying Parties of the commencement of such action, enclosing a copy of all papers served. If any such action is brought against any of the Indemnified Parties and such Indemnified Parties notify the Indemnifying Parties of its commencement, the Indemnifying Parties will be entitled to participate in and, to the extent that they elect by delivering written notice to such Indemnified Parties promptly after receiving notice of the commencement of the action from the Indemnified Parties, to assume the defense of the action and after notice from the Indemnifying Parties to the Indemnified Parties of their election to assume the defense, the Indemnifying Parties will not be liable to the Indemnified Parties for any legal or other expenses except as provided below. If the Indemnifying Parties assume the defense, the Indemnifying Parties shall have the right to settle such action without the consent of the Indemnified Parties; provided, however, that the Indemnifying Parties shall be required to obtain such consent (which consent shall not be unreasonably withheld) if the settlement includes any admission or wrongdoing on the part of the Indemnified Parties or any decree or restriction on the Indemnified Parties or their officers or directors; provided, further, that no Indemnifying Parties, in the defense of any such action shall, except with the consent of the Indemnified Parties (which consent shall not be unreasonably withheld), consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Parties of a release from all liability with respect to such action. The Indemnified Parties will have the right to employ their own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such Indemnified Parties unless (i) the employment of counsel by the Indemnified Parties has been authorized in writing by the Indemnifying Parties, (ii) the Indemnified Parties have reasonably concluded (based on written advice of counsel) that there may be legal defenses available to them that are different from or in addition to those available to the Indemnifying Parties, (iii) a conflict or potential conflict exists (based on written advice of counsel to the Indemnified Parties) between the Indemnified Parties and the Indemnifying Parties (in which case the Indemnifying Parties will not have the right to direct the defense of such action on behalf of the Indemnified Parties) or (iv) the Indemnifying Parties have not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the Indemnifying Parties. It is understood that the Indemnifying Parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time from all such Indemnified Parties unless (a) the employment of more than one counsel has been authorized in writing by the Indemnifying Parties, (b) any of the Indemnified Parties have reasonably concluded (based on advice of counsel) that there may be legal defenses available to them that are different from or in addition to those available to other Indemnified Parties or (c) a conflict or potential conflict exists (based on advice of counsel to the Indemnified Parties) between any of the Indemnified Parties and the other Indemnified Parties, in each case of which the Indemnifying Parties shall be obligated to pay the reasonable and appropriate fees and expenses of such additional counsel or counsels. The Indemnifying Parties will not be liable for any settlement of any action or claim effected without their written consent (which consent shall not be unreasonably withheld).

(b) The provisions of this Section 8.15 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her personal representatives and shall be binding on all successors and assigns of Trust and Capital.

(c) Trust shall either (i) extend Capital's existing directors' and officers' liability insurance policy as of the date hereof (or a policy providing coverage on the same or better terms and conditions) for acts or omissions occurring prior to the Effective Time by persons who are currently covered by such insurance policy maintained by Capital for a period of six (6) years following the Effective Time, or (ii) add such persons to the existing trust managers and officers liability insurance policy of Trust; provided, however, that such insurance shall provide directors and officers of Capital the same coverage as similarly situated officers and trust managers of Trust and such insurance shall be maintained by Trust for a period of six (6) years following the Effective Time.

(d) In the event that Trust or any of it respective successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person, then, and in each such case the successors and assigns of such entity shall assume the obligations set forth in this Section 8.15, which obligations are expressly intended to be for the irreversible benefit of, and shall be enforceable by, each director and officer covered hereby.

ARTICLE IX

CONDITIONS PRECEDENT

9.1. CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER. The respective obligation of each party to effect the Merger and to consummate the other Transactions contemplated to occur on the Closing Date is subject to the satisfaction or waiver on or prior to the Effective Time of the following conditions:

(a) Shareholder Approvals. This Agreement shall have been approved and adopted by the Shareholder Approvals.

(b) HSR Act. The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired.

(c) Exemptive Order. The Exemptive Order shall have been issued by the SEC and shall not contain any terms and conditions that are (a) unacceptable to either party, in its reasonably discretion, or (b) inconsistent with this Agreement.

(d) Listing of Shares. The AMEX shall have approved for listing the Trust Common Shares to be issued in the Merger.

(e) SBA Approval. The SBA Approval shall have been issued by the SBA and shall not contain any terms and conditions that are (a) unacceptable to either party, in its reasonable discretion, or (b) inconsistent with this Agreement.

(f) Registration Statement. The Registration Statement shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings by the SEC seeking a stop order.

(g) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or any of the other Transactions shall be in effect.

(h) Blue Sky Laws. Trust shall have received all state securities or "blue sky" permits and other authorizations necessary to issue the shares of Trust Common Shares comprising the Merger Consideration.

(i) Related Transactions. The Capital Voting Agreement and the Trust Voting Agreement shall remain in full force and effect and the respective transactions contemplated thereby shall have been consummated prior to, or are being consummated simultaneously with, the Merger.

(j) Certain Actions and Consents. All material actions by or in respect of or filings with any Governmental Entity required for the consummation of the Transactions shall have been obtained or made.

9.2. CONDITIONS TO OBLIGATIONS OF TRUST. The obligations of Trust to effect the Merger and to consummate the other Transactions contemplated to occur on the Closing Date are further subject to the following conditions, any one or more of which may be waived by Trust:

(a) Representations and Warranties. The representations and warranties of Capital set forth in this Agreement shall be true and correct as of the Closing Date, as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, and Trust shall have received a certificate (which certificate may be qualified by knowledge to the same extent as such representations and warranties are so qualified) signed on behalf of Capital by the chief executive officer or the chief financial officer of Capital to such effect. This condition shall be deemed satisfied unless any or all breaches of Capital's representations and warranties in this Agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to have a Capital Material Adverse Effect.

(b) Performance of Obligations of Capital. Capital shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Trust shall have received a certificate signed on behalf of Capital by the chief executive officer or the chief financial officer of Capital to such effect.

(c) Material Adverse Change. Since the date of this Agreement, there shall have been no Capital Material Adverse Change and Trust shall have received a certificate of the chief executive officer or chief financial officer of Capital certifying to such effect.

(d) Opinions. Trust shall have received (i) an opinion of counsel to Capital, dated as of the Closing Date, reasonably satisfactory to Trust that, for all taxable years of Capital for which the applicable federal income tax statutory period of limitations have not expired, Capital was organized and has operated in conformity with the requirements for qualification as a RIC under the Code and (ii) an opinion of counsel to Trust, dated as of the Closing Date, reasonably satisfactory to Trust, (A) that, for all taxable years of Trust for which the federal income tax statutory period of limitations have not expired, Trust was organized and has operated in conformity with the requirements for qualification as a REIT under the Code and that, after giving effect to the Merger, Trust's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code (with customary exceptions, assumptions and qualifications and based upon customary representations) and (B) that the merger will qualify as a reorganization under the provisions of Section 368(a) of the Code.

(e) Consents. All consents and waivers from third parties necessary in connection with the consummation of the Transactions shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a Capital Material Adverse Effect.

9.3. CONDITIONS TO OBLIGATIONS OF CAPITAL.

The obligation of Capital to effect the Merger and to consummate the other Transactions contemplated to occur on the Closing Date is further subject to the following conditions, any one or more of which may be waived by Capital:

(a) Representations and Warranties. The representations and warranties of Trust set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, and Capital shall have received a certificate (which certificate may be qualified by knowledge to the same extent as the representations and warranties of Trust contained herein are so qualified) signed on behalf of Trust by the chief executive officer and the chief financial officer of such party to such effect. This condition shall be deemed satisfied unless any or all breaches of Trust's representations and warranties in this Agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to have a Trust Material Adverse Effect.

(b) Performance of Obligations of Trust. Trust shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Capital shall have received a certificate of Trust signed on behalf of such party by the chief executive officer or the chief financial officer of such party to such effect.

(c) Material Adverse Change. Since the date of this Agreement, there shall have been no Trust Material Adverse Change and Capital shall have received a certificate of the chief executive officer or chief financial officer of Trust certifying to such effect.

(d) Opinion Relating to REIT Status. Capital shall have received (i) an opinion of counsel to Trust dated as of the Closing Date, reasonably satisfactory to Capital, that, for all taxable years of Trust for which the federal income tax statutory period of limitation have not expired, Trust was organized and has operated in conformity with the requirements for qualification as a REIT under the Code and that, after giving effect to the Merger, Trust's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code (with customary exceptions, assumptions and qualifications and based upon customary representations) and (ii) an opinion dated as of the Closing Date from counsel to Capital and dated the Closing Date, to the effect that the Merger will qualify as a reorganization under the provisions of Section 368(a) of the Code.

(e) Consents. All consents and waivers (including, without limitation, waivers or rights of first refusal) from third parties necessary in connection with the consummation of the Transactions shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not have a Trust Material Adverse Effect.

ARTICLE X

BOARD ACTIONS

10.1. BOARD ACTIONS. Notwithstanding Section 8.10 or any other provision of this Agreement to the contrary, to the extent required by the fiduciary obligations of either the Board of Trust Managers of Trust or the Board of Directors of Capital, as determined in good faith after consultation with outside legal counsel and financial advisors, Trust or Capital, as applicable, may:

(a) disclose to its shareholders any information that, in the opinion of its Board, after consultation with outside legal counsel, is required to be disclosed under applicable law;

(b) to the extent applicable, comply with Rule 14e-2(a) promulgated under the Exchange Act with respect to a Competing Transaction;

(c) in response to an unsolicited request therefor, participate in discussions or negotiations with, or furnish information with respect to it pursuant to a confidentiality agreement not materially less favorable to it than the confidentiality provisions contained herein (as determined by its outside counsel), or otherwise respond to or deal with any person in connection with a Competing Transaction proposed by such person; and

(d) approve or recommend (and in connection therewith withdraw or modify its approval or recommendation of this Agreement or the Merger) a Superior Competing Transaction (as defined below) and enter into an agreement with respect to such Superior Competing Transaction (for purposes of this Agreement, "Superior Competing Transaction" means a bona fide proposal of a Competing Transaction made by a third party which has not been solicited or initiated by Trust or Capital, as applicable, in violation of Section 8.10 and which a majority of the members of the Board of Trust Managers of Trust or the Board of Directors of Capital, as applicable, determines in good faith (A) to be more favorable to Trust's or Capital's shareholders, as applicable, from a financial point of view than the Merger, and (B) is reasonably capable of being consummated.

ARTICLE XI

TERMINATION, AMENDMENT AND WAIVER

11.1. TERMINATION. This Agreement may be terminated at any time prior to the filing of the Articles of Merger with the Secretary of State of the State of Florida and the Dallas County Clerk, Dallas, Texas, whether before or after either of the Shareholder Approvals are obtained:

(a) by mutual written consent duly authorized by the Board of Trust Managers of Trust and Board of Directors of Capital;

(b) by Trust, upon a breach of any representation, warranty, covenant or agreement on the part of Capital set forth in this Agreement, or if any representation or warranty of Capital shall have become untrue, in either case such that the conditions set forth in Section 9.2(a) or Section 9.2 (b), as the case may be, would be incapable of being satisfied by the Closing Date;

(c) by Capital, upon a breach of any representation, warranty, covenant or agreement on the part of Trust set forth in this Agreement, or if any representation or warranty of Trust shall have become untrue, in either case such that the conditions set forth in Section 9.3(a) or Section 9.3(b), as the case may be, would be incapable of being satisfied by the Closing Date;

(d) by either Trust or Capital, if any judgment, injunction, order, decree or action by any Governmental Entity of competent authority preventing the consummation of the Merger shall have become final and nonappealable;

(e) by either Trust or Capital, if the Merger shall not have been consummated before December 31, 2003; provided, however, that a party that has willfully and materially breached a representation, warranty or covenant of such party set forth in this Agreement shall not be entitled to exercise its right to terminate under this Section 11.1(e);

(f) by either Trust or Capital (unless Capital is in breach of its obligations under Section 8.1(b)) if, upon a vote at a duly held Capital Shareholders Meeting or any adjournment thereof, Capital Shareholder Approvals shall not have been obtained as contemplated by Section 8.1;

(g) by either Trust (unless Trust is in breach of its obligations under 8.1(c)) or Capital if, upon a vote at a duly held Trust Shareholders Meeting or any adjournment thereof, the Trust Shareholder Approvals shall not have been obtained as contemplated by Section 8.1;

(h) by Capital, if prior to the Capital Shareholders Meeting, the Board of Directors of Capital shall have withdrawn or modified in any manner adverse to Trust its approval or recommendation of the Merger or this Agreement in connection with, or approved or recommended, a Superior Competing Transaction; provided, however, that such termination shall not be effective prior to the payment of the Break-Up Fee to the extent required by Section 11.2(b) hereof;

(i) by Trust, if prior to the Trust Shareholders Meeting, the Board of Trust Managers of Trust shall have withdrawn or modified in any manner adverse to Capital its approval or recommendation of the Merger or this Agreement in connection with, or approved or recommended, a Superior Competing Transaction; provided, however, that such termination shall not be effective prior to the payment of the Break-Up Fee to the extent required by Section 11.2(c) hereof;

(j) by Trust, if (i) prior to Capital Shareholders Meeting, the Board of Directors of Capital shall have withdrawn or modified in any manner adverse to Trust its approval or recommendation of the Merger or this Agreement in connection with, or approved or recommended, any Superior Competing Transaction or (ii) Capital shall have entered into a definitive agreement with respect to any Competing Transaction; or

(k) by Capital, if (i) prior to Trust Shareholders Meeting, the Board of Trust Managers of Trust shall have withdrawn or modified in any manner adverse to Trust its approval or recommendation of the Merger or this Agreement in connection with, or approved or recommended, any Superior Competing Transaction or (ii) Trust shall have entered into a definitive agreement with respect to any Competing Transaction.

11.2. EXPENSES.

(a) Except as otherwise specified in this Section 11.2 or agreed in writing by the parties, all out-of-pocket costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such cost or expense.

(b) Capital agrees that if this Agreement shall be terminated
(i) pursuant to (x) Section 11.1(b), (h) or (j) and Capital shall have entered into an agreement to consummate a Competing Transaction described in Section 8.10(i), (ii), (iv) or (v) hereof or (y) pursuant to Section 11.1(b) or (e) and, within one year from the date of such termination, Capital consummates such a Competing Transaction or enters into an agreement to consummate such a Competing Transaction which is subsequently consummated, then Capital will pay (provided that Trust was not in material breach of any of its representations, warranties, covenants or agreements hereunder at the time of termination) as directed by Trust a fee in an amount equal to $870,000 (the "Break-Up Fee") and (ii) pursuant to Section 11.1(b) and no agreement for such a Competing Transaction shall have been entered into, then Capital will pay, as directed by Trust an amount equal to $750,000 (the "Break-Up Expenses"). Payment of any of such amounts shall be made, as directed by Trust, by wire transfer of immediately available funds promptly, but in no event later than two business days after such termination. For purposes of Section 11.2(b)(i)(y) above, a "Competing Transaction" shall be limited to a Competing Transaction described in Section 8.10(i), (ii), (iv) or (v) hereof with respect to which Capital had negotiations prior to termination of this Agreement.

(c) Trust agrees that if this Agreement shall be terminated
(i) pursuant to (x) Section 11.1(c), (i) or (k) and Trust shall have entered into an agreement to consummate a Competing Transaction described in Section 8.10(i), (ii), (iv) or (v) hereof or (y) pursuant to Section 11.1(c) or (e) and within one year from the date of such termination, Trust consummates such a Competing Transaction or enters into an agreement to consummate such a Competing Transaction which is subsequently consummated, then Trust will pay (provided that Capital was not in material breach of any of its representations, warranties, covenants or agreements hereunder at the time of termination) as directed by Capital the Break-Up Fee and (ii) pursuant to Section 11.1(c) and no agreement for such a Competing Transaction shall have been entered into, then Trust will pay, as directed by Capital, the Break-Up Expenses. Payment of any of such amounts shall be made, as directed by Capital, by wire transfer of immediately available funds promptly, but in no event later than two business days after such termination. For purposes of Section 11.3(b)(i)(y) above, a "Competing Transaction" shall be limited to a Competing Transaction described in
Section 8.10(i), (ii), (iv) or (v) hereof with respect to which Trust had negotiations prior to termination of this Agreement.

11.3. EFFECT OF TERMINATION. In the event of termination of this Agreement by either Capital or Trust as provided in Section 11.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Trust or Capital, other than the last sentence of
Section 8.2, Section 11.2 and this Section 11.3 and except to the extent that such termination results from a material breach by a party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

11.4. AMENDMENT. This Agreement may be amended by the parties in writing by action of the Board of Directors of Capital or the Board of Trust Managers of Trust at any time before or after any Shareholder Approvals are obtained and prior to the filing of the Articles of Merger with the Secretary of State of the State of Florida and the Dallas County Clerk, Dallas, Texas; provided, however, that, after the Shareholder Approvals are obtained, no such amendment, modification or supplement shall alter the amount or change the form of the consideration to be delivered to Capital's shareholders or alter or change any of the terms or conditions of this Agreement if such alteration or change would adversely affect Capital's shareholders or Trust's shareholders.

11.5. EXTENSION; WAIVER. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 11.4, waive compliance with any of the agreements or conditions of the other party contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE XII

GENERAL PROVISIONS

12.1. NONSURVIVAL OF REPRESENTATIONS AND WARRANTIES. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 12.1 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

12.2. NOTICES. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given if delivered personally, sent by overnight courier (providing proof of delivery) to the parties or sent by telecopy (providing confirmation of transmission) at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as shall be specified by like notice):

(a) if to Trust, to

PMC Commercial Trust 18111 Preston Road, Suite 600 Dallas, Texas 75252 Attention: Andrew S. Rosemore Facsimile: (972) 349-3265

with a copy to:

Locke Liddell & Sapp LLP 2200 Ross Avenue, Suite 2200 Dallas, Texas 75201 Attention: Kenneth L. Betts, Esq.

Facsimile: (214) 740-8800

(b) if to Capital, to

PMC Capital, Inc. 18111 Preston Road, Suite 600 Dallas, Texas 75252 Attention: Lance B. Rosemore Facsimile: (972) 349-3265

with a copy (which shall not constitute notice) to:

Sutherland, Asbill & Brennan LLP 1275 Pennsylvania Avenue, N.W.

Washington, D.C. 20004-2404
Attention: Steven B. Boehm, Esq.
Facsimile: (202) 637-3593

12.3. INTERPRETATION. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

12.4. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

12.5. EXHIBITS AND SCHEDULES. The exhibits and Schedules hereto are a part of this Agreement as if fully set forth herein. All references herein to Articles, Sections, clauses, exhibits and Schedules shall be deemed references to such parts of this Agreement, unless the contest shall otherwise require.

12.6. ENTIRE AGREEMENT; NO THIRD-PARTY BENEFICIARIES. This Agreement and the other agreements entered into in connection with the Transactions (a) constitute the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement and, (b) except for the provisions of Article II, Section 8.14 and Section 8.15, are not intended to confer upon any person other than the parties hereto any rights or remedies.

12.7. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF, EXCEPT TO THE EXTENT THAT THE MERGER OR OTHER TRANSACTIONS CONTEMPLATED HEREBY ARE REQUIRED TO BE GOVERNED BY THE TEXAS STATUTE.

12.8. ASSIGNMENT. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

12.9. ENFORCEMENT. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Texas or in any Texas State court located in Texas, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself (without making such submission exclusive) to the personal jurisdiction of any federal court located in the State of Texas or any Texas state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement and (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court.

12.10. SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any current or future law, and if the rights or obligations of the parties under this Agreement would not be materially and adversely affected thereby, such provision shall be fully separable, and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part thereof, the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance therefrom. In lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement, a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible, and the parties hereto request the court or any arbitrator to whom disputes relating to this Agreement are submitted to reform the otherwise illegal, invalid or unenforceable provision in accordance with this Section 12.10.

IN WITNESS WHEREOF, Trust and Capital have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

PMC COMMERCIAL TRUST

By: /s/ Andrew S. Rosemore
Name: Andrew S. Rosemore
Title: Executive Vice President and COO

PMC CAPITAL, INC.

By: /s/ Lance B. Rosemore
Name: Lance B. Rosemore
Title: Chief Executive Officer

ANNEX A

Irvin M. Borish
Martha R. Greenberg
Thomas Hamill
Barry A. Imber
Fredric M. Rosemore
Lance B. Rosemore
Theodore J. Samuel

Barry N. Berlin
Mary J. Brownmiller
Cheryl T. Murray
Andrew S. Rosemore
Jan F. Salit

ANNEX B

Nathan G. Cohen
Martha R. Greenberg
Roy H. Greenberg
Irving Munn
Andrew S. Rosemore
Lance B. Rosemore
Ira Silver

Barry N. Berlin
Mary J. Brownmiller
Cheryl T. Murray
Jan F. Salit

VOTING AGREEMENT

This VOTING AGREEMENT ("Agreement") is entered into on March 27, 2003 by and among PMC Commercial Trust, a Texas real estate investment trust ("Trust"), and each of the undersigned shareholders (such shareholders each individually referred to herein as a "Designated Shareholder" and collectively as the "Designated Shareholders") of PMC Capital, Inc., a Florida corporation (the "Capital").

WHEREAS, pursuant to an Agreement and Plan of Merger dated March 27, 2003 (the "Merger Agreement") between Trust and Capital, Capital will be merged with and into Trust (the "Merger") (all capitalized terms used but not defined herein shall have the meanings set forth in the Merger Agreement);

WHEREAS, pursuant to the Merger Agreement, and to induce Trust to enter into the Merger Agreement, Capital has agreed to use commercially reasonable efforts to cause the persons who are identified on Annex A to the Merger Agreement to execute and deliver to Trust a Voting Agreement; and

WHEREAS, approximately 21% percent of the beneficial and record ownership of the issued and outstanding shares of common stock, $.01 par value per share, of Capital (the "Capital Shares") are held, in the aggregate, by the Designated Shareholders in the manner set forth on Exhibit A hereto.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DISPOSITION OF THE CAPITAL SHARES. Each Designated Shareholder agrees, for the period from the date hereof through the date on which the Merger is consummated or the Merger Agreement terminates, whichever is earlier (such period hereinafter referred to as the "Term"), that such Designated Shareholder, except as contemplated hereby, (a) will not directly or indirectly sell, transfer, pledge, encumber, assign or otherwise dispose of, or enter into any contract, option or other agreement or understanding with respect to the sale, transfer, pledge, encumbrance, assignment or other disposition of, any Capital Shares now owned or hereafter acquired by such Designated Shareholder, except for transfers to independent charitable foundations or institutions and except for transfers approved in writing by Trust, (b) grant any proxies, deposit any Capital Shares into a voting trust or enter into a voting agreement (other than this Agreement) with respect to any Capital Shares or (c) take any action that would have the effect of preventing or disabling the Designated Shareholder from performing its obligations under this Agreement.

2. VOTING. Each Designated Shareholder agrees during the Term to cast all votes attributable to the Capital Shares now and hereafter beneficially owned by such Designated Shareholder at any annual or special meeting of shareholders of Capital, including any adjournments or postponements thereof (a "Meeting"), (a) in favor of adoption of the Merger Agreement and the transactions contemplated thereby (including any amendment or modification of the terms of the Merger Agreement approved by the board of directors of Capital), and (b)

against approval or adoption of any action or agreement (other than the Merger Agreement or the transactions contemplated thereby) that would impede, interfere with, delay, postpone or attempt to discourage the Merger and the transactions contemplated thereby.

3. NO SOLICITATION. From and after the date hereof and continuing until this provision terminates pursuant to Section 6 hereof and except as permitted by the Merger Agreement, such Designated Shareholder shall immediately cease any existing discussions or negotiations with any third parties conducted prior to the date hereof with respect to any Competing Transaction. Such Designated Shareholder shall not, directly or indirectly, through any officer, director, employee, representative or agent or any of Capital's Subsidiaries, (i) solicit or initiate any Competing Transaction, (ii) engage in negotiations or discussions concerning or provide any nonpublic information to any person or entity relating to, any Competing Transaction or (iii) agree to or approve any Competing Transaction.

4. REPRESENTATIONS AND WARRANTIES OF THE DESIGNATED SHAREHOLDERS. Each of the Designated Shareholders represents and warrants to Trust as follows:

a. Such Designated Shareholder has all necessary power, authority or competence to execute, deliver and perform this Agreement. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not conflict with or violate any law, regulation, court order, judgment or decree applicable to such Designated Shareholder or conflict with or result in any breach of or constitute a default
(or an event which with notice or lapse of time or both would become a default) under any contract or agreement to which such Designated Shareholder is a party or by which such Designated Shareholder is bound or affected, which conflict, violation, breach or default would materially and adversely affect such Designated Shareholder's ability to perform this Agreement.

b. Such Designated Shareholder is not required to give any notice or make any report or other filing with any governmental authority in connection with the execution or delivery of this Agreement or the performance of such Designated Shareholder's obligations hereunder and no waiver, consent, approval or authorization of any governmental or regulatory authority or any other person or entity is required to be obtained by such Designated Shareholder for the performance of such Designated Shareholder's obligations hereunder, other than where the failure to make such filings, give such notices or obtain such waivers, consents, approvals or authorizations would not materially and adversely affect such Designated Shareholder's ability to perform this Agreement.

c. The Capital Shares set forth opposite the name of such Designated Shareholder on Exhibit A hereto are the only the Capital Shares owned beneficially or of record by such Designated Shareholder or over which such Person exercises voting control and such Designated Shareholder has sole voting power to issue instructions with respect to the matters set forth in Section 2 hereof and sole power of disposition, sole power of conversion, sole power to demand appraisal rights, and, subject to the receipt of any required governmental approvals, sole power to agree to all of the matters set forth in this Agreement with no limitations, qualifications or restrictions on such rights.

5. UNDERSTANDING OF THIS AGREEMENT. Each Designated Shareholder has carefully read this Agreement and has discussed its requirements, to the extent such Designated Shareholder believes necessary, with its counsel (which may be counsel to Capital). The undersigned further understands that the parties to the Merger Agreement will be proceeding in reliance upon this Agreement.

6. FURTHER ASSURANCES. From time to time, at the other party's request and without further consideration, each Designated Shareholder, on the one hand, and Trust, on the other hand, shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable in Trust's reasonable judgment to consummate and make effective the transactions contemplated by this Agreement and the Merger Agreement.

7. TERMINATION. Except as otherwise provided herein, the covenants and agreements contained herein with respect to the Capital Shares shall terminate
(a) in the event the Merger Agreement is terminated pursuant to Article XI thereof, upon such termination, and (b) in the event the Merger is consummated, at the Effective Time.

8. DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

9. COUNTERPARTS. This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all of such counterparts shall together constitute one and the same instrument.

10. ENTIRE AGREEMENT; ASSIGNMENT. This Agreement (a) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof and (b) shall not be assigned by operation of law or otherwise.

11. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

12. SPECIFIC PERFORMANCE. The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

13. PARTIES IN INTEREST. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or persons any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

14. AMENDMENT; WAIVERS. This Agreement shall not be amended, altered or modified except by an instrument in writing duly executed by each of the parties hereto. No delay or failure on the part of any party hereto in exercising any right, power or privilege under

this Agreement shall impair any such right, power or privilege or be construed as a waiver of any default or any acquiescence thereto. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege, or the exercise of any other right, power or privilege. No waiver shall be valid against any party hereto, unless made in writing and signed by the party against whom enforcement of such waiver is sought, and then only to the extent expressly specified therein.

15. CONFLICT OF TERMS. In the event any provision of this Agreement is directly in conflict with, or inconsistent with, any provision of the Merger Agreement, the provision of the Merger Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Voting Agreement, or have caused this Voting Agreement to be duly executed and delivered in their names and on their behalf as of the date first written above.

PMC COMMERCIAL TRUST

By:

Name:
Title:

DESIGNATED SHAREHOLDERS

Irvin M. Borish

Spouse:

Martha R. Greenberg

Spouse:

Thomas Hamill

Spouse:

Barry A. Imber

Spouse:

Fredric M. Rosemore

Spouse:

Lance B. Rosemore

Spouse:

Theodore J. Samuel

Spouse:

Barry N. Berlin

Spouse:

Mary J. Brownmiller

Spouse:

Cheryl T. Murray

Spouse:

Andrew S. Rosemore

Spouse:

Jan F. Salit

EXHIBIT A

DESIGNATED SHAREHOLDER	SHARES
Irvin M. Borish	120,000
Martha R. Greenberg	633,401
Thomas Hamill	9,276
Barry A. Imber	5,000
Fredric M. Rosemore	502,995
Lance B. Rosemore	244,492
Theodore J. Samuel	--
Barry N. Berlin	525
Mary J. Brownmiller	15,550
Cheryl T. Murray	1,900
Andrew S. Rosemore	785,967
Jan F. Salit	1,179

Exhibit A-1

VOTING AGREEMENT

This VOTING AGREEMENT ("Agreement") is entered into on March 27, 2003 by and among PMC Capital, Inc., a Florida corporation ("Capital"), and each of the undersigned shareholders (such shareholders each individually referred to herein as a "Designated Shareholder" and collectively as the "Designated Shareholders") of PMC Commercial Trust, a Texas real estate investment trust ("Trust").

WHEREAS, pursuant to an Agreement and Plan of Merger dated March 27, 2003 (the "Merger Agreement") between Trust and Capital, Capital will be merged with and into Trust (the "Merger") (all capitalized terms used but not defined herein shall have the meanings set forth in the Merger Agreement);

WHEREAS, pursuant to the Merger Agreement, and to induce Capital to enter into the Merger Agreement, Trust has agreed to use commercially reasonable efforts to cause the persons who are identified on Annex A to the Merger Agreement to execute and deliver to Trust a Voting Agreement; and

WHEREAS, approximately 8.5% percent of the beneficial and record ownership of the issued and outstanding common shares of beneficial interest, $.01 par value per share, of Trust (the "Trust Shares") are held, in the aggregate, by the Designated Shareholders in the manner set forth on Exhibit A hereto.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DISPOSITION OF THE CAPITAL SHARES. Each Designated Shareholder agrees, for the period from the date hereof through the date on which the Merger is consummated or the Merger Agreement terminates, whichever is earlier (such period hereinafter referred to as the "Term"), that such Designated Shareholder, except as contemplated hereby, (a) will not directly or indirectly sell, transfer, pledge, encumber, assign or otherwise dispose of, or enter into any contract, option or other agreement or understanding with respect to the sale, transfer, pledge, encumbrance, assignment or other disposition of, any Trust Shares now owned or hereafter acquired by such Designated Shareholder, except for transfers to independent charitable foundations or institutions and except for transfers approved in writing by Capital, (b) grant any proxies, deposit any Trust Shares into a voting trust or enter into a voting agreement (other than this Agreement) with respect to any Trust Shares or (c) take any action that would have the effect of preventing or disabling the Designated Shareholder from performing its obligations under this Agreement.

2. VOTING. Each Designated Shareholder agrees during the Term to cast all votes attributable to the Trust Shares now and hereafter beneficially owned by such Designated Shareholder at any annual or special meeting of shareholders of Trust, including any adjournments or postponements thereof (a "Meeting"), (a) in favor of adoption of the Merger Agreement and the transactions contemplated thereby (including any amendment or modification of the terms of the Merger Agreement approved by the board of trust managers of Trust), and (b)

against approval or adoption of any action or agreement (other than the Merger Agreement or the transactions contemplated thereby) that would impede, interfere with, delay, postpone or attempt to discourage the Merger and the transactions contemplated thereby.

3. NO SOLICITATION. From and after the date hereof and continuing until this provision terminates pursuant to Section 6 hereof and except as permitted by the Merger Agreement, such Designated Shareholder shall immediately cease any existing discussions or negotiations with any third parties conducted prior to the date hereof with respect to any Competing Transaction. Such Designated Shareholder shall not, directly or indirectly, through any officer, director, employee, representative or agent or any of Trust's Subsidiaries, (i) solicit or initiate any Competing Transaction, (ii) engage in negotiations or discussions concerning or provide any nonpublic information to any person or entity relating to, any Competing Transaction or (iii) agree to or approve any Competing Transaction.

4. REPRESENTATIONS AND WARRANTIES OF THE DESIGNATED SHAREHOLDERS. Each of the Designated Shareholders represents and warrants to Capital as follows:

a. Such Designated Shareholder has all necessary power, authority or competence to execute, deliver and perform this Agreement. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not conflict with or violate any law, regulation, court order, judgment or decree applicable to such Designated Shareholder or conflict with or result in any breach of or constitute a default
(or an event which with notice or lapse of time or both would become a default) under any contract or agreement to which such Designated Shareholder is a party or by which such Designated Shareholder is bound or affected, which conflict, violation, breach or default would materially and adversely affect such Designated Shareholder's ability to perform this Agreement.

b. Such Designated Shareholder is not required to give any notice or make any report or other filing with any governmental authority in connection with the execution or delivery of this Agreement or the performance of such Designated Shareholder's obligations hereunder and no waiver, consent, approval or authorization of any governmental or regulatory authority or any other person or entity is required to be obtained by such Designated Shareholder for the performance of such Designated Shareholder's obligations hereunder, other than where the failure to make such filings, give such notices or obtain such waivers, consents, approvals or authorizations would not materially and adversely affect such Designated Shareholder's ability to perform this Agreement.

c. The Trust Shares set forth opposite the name of such Designated Shareholder on Exhibit A hereto are the only the Trust Shares owned beneficially or of record by such Designated Shareholder or over which such Person exercises voting control and such Designated Shareholder has sole voting power to issue instructions with respect to the matters set forth in Section 2 hereof and sole power of disposition, sole power of conversion, sole power to demand appraisal rights, and, subject to the receipt of any required governmental approvals, sole power to agree to all of the matters set forth in this Agreement with no limitations, qualifications or restrictions on such rights.

5. UNDERSTANDING OF THIS AGREEMENT. Each Designated Shareholder has carefully read this Agreement and has discussed its requirements, to the extent such Designated Shareholder believes necessary, with its counsel (which may be counsel to Trust). The undersigned further understands that the parties to the Merger Agreement will be proceeding in reliance upon this Agreement.

6. FURTHER ASSURANCES. From time to time, at the other party's request and without further consideration, each Designated Shareholder, on the one hand, and Capital, on the other hand, shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable in Capital's reasonable judgment to consummate and make effective the transactions contemplated by this Agreement and the Merger Agreement.

7. TERMINATION. Except as otherwise provided herein, the covenants and agreements contained herein with respect to the Trust Shares shall terminate (a) in the event the Merger Agreement is terminated pursuant to Article XI thereof, upon such termination, and (b) in the event the Merger is consummated, at the Effective Time.

8. DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

9. COUNTERPARTS. This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all of such counterparts shall together constitute one and the same instrument.

10. ENTIRE AGREEMENT; ASSIGNMENT. This Agreement (a) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof and (b) shall not be assigned by operation of law or otherwise.

11. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

12. SPECIFIC PERFORMANCE. The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

13. PARTIES IN INTEREST. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or persons any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

14. AMENDMENT; WAIVERS. This Agreement shall not be amended, altered or modified except by an instrument in writing duly executed by each of the parties hereto. No delay or failure on the part of any party hereto in exercising any right, power or privilege under

this Agreement shall impair any such right, power or privilege or be construed as a waiver of any default or any acquiescence thereto. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege, or the exercise of any other right, power or privilege. No waiver shall be valid against any party hereto, unless made in writing and signed by the party against whom enforcement of such waiver is sought, and then only to the extent expressly specified therein.

15. CONFLICT OF TERMS. In the event any provision of this Agreement is directly in conflict with, or inconsistent with, any provision of the Merger Agreement, the provision of the Merger Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Voting Agreement, or have caused this Voting Agreement to be duly executed and delivered in their names and on their behalf as of the date first written above.

PMC CAPITAL, INC.

By:

Name:
Title:

DESIGNATED SHAREHOLDERS

Nathan G. Cohen

Spouse:

Martha R. Greenberg

Spouse:

Roy J. Greenberg

Spouse:

Irving Munn

Spouse:

Andrew S. Rosemore

Spouse:

Lance B. Rosemore

Spouse:

Ira Silver

Spouse:

Barry N. Berlin

Spouse:

Mary J. Brownmiller

Spouse:

Cheryl T. Murray

Spouse:

Jan F. Salit

EXHIBIT A

DESIGNATED SHAREHOLDER	SHARES
Nathan G. Cohen	5,600
Martha R. Greenberg	62,874
Roy J. Greenberg	6,000
Irving Munn	3,000
Andrew S. Rosemore	214,375
Lance B. Rosemore	37,270
Ira Silver	3,000
Barry N. Berlin	9,382
Mary J. Brownmiller	1,474
Cheryl T. Murray	2,200
Jan F. Salit	10,653

EXHIBIT 10.22

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of March 11, 2003, among PMC COMMERCIAL TRUST, a real estate investment trust organized under the laws of the State of Texas ("Borrower"), certain Lenders, and BANK ONE, NA, a national banking association with its main office in Chicago, Illinois, successor by merger to Bank One, Texas, N.A. ("Administrative Agent").

PRELIMINARY STATEMENT:

Borrower, Administrative Agent and Lenders are party to that certain Credit Agreement (as renewed, extended, amended and restated, the "Credit Agreement") dated as of November 29, 1999, pursuant to which the Lenders have made and may hereafter make loans to Borrower. The parties hereto have agreed to amend the Credit Agreement in order to (i) provide for a temporary increase in the amount of the Commitment, and (ii) extend the maturity of the Revolving Facility.

Accordingly, for adequate and sufficient consideration, the receipt of which is hereby acknowledged, Borrower, Administrative Agent and Lenders agree as follows:

1. Defined Terms; References. Unless otherwise stated in this Amendment (a) terms defined in the Credit Agreement have the same meanings when used in this Amendment and (b) references to "Sections," "Schedules" and "Exhibits" are to sections, schedules and exhibits to the Credit Agreement.

2. Amendments.

(a) The defined term "Commitment" in Section 1.1 of the Credit Agreement is amended in its entirety as follows:

"Commitment" means an amount (subject to reduction or cancellation as herein provided) equal to (a) $35,000,000 for the period between March 19, 2003, and the Commitment Reduction Date, and (b) $30,000,000 at any time thereafter. For purposes of this paragraph, the term "Commitment Reduction Date" means the earlier of (i) the closing date of the first Asset Securitization to be completed after March 19, 2003, and (ii) June 30, 2003.

(b) The defined term "Stated Termination Date" in Section 1.1 of the Credit Agreement is amended in its entirety as follows:

"Stated Termination Date" means May 31, 2004.

(c) Schedule 2 to the Credit Agreement is hereby amended in its entirety as set forth on Annex A attached hereto.

3. Conditions Precedent. Notwithstanding any contrary provisions, the foregoing paragraphs in this Amendment are not effective unless and until (a) the representations and warranties in this Amendment are true and correct, (b) Lender receives counterparts of this Amendment executed by each party named below, and (c) Borrower executes and delivers to Bank One, NA, a renewal and replacement Revolving Note in the stated principal amount of $35,000,000.

4. Ratifications. This Amendment modifies and supersedes all inconsistent terms and provisions of the Credit Documents, and except as expressly modified and superseded by this Amendment, the Credit Documents are ratified and confirmed and continue in full force and effect. Borrower, Administrative Agent and Lenders agree that the Credit Documents, as amended by this Amendment, continue to be legal, valid, binding and enforceable in accordance with their respective terms. Without limiting the generality of the foregoing, Borrower hereby ratifies and confirms that all Liens heretofore granted to Administrative Agent on behalf of the Lenders were intended to, do, and continue to secure the full payment and performance of the Obligation. Borrower agrees to perform such acts and duly authorize, execute, acknowledge, deliver, file and record such additional assignments, security agreements, modifications or amendments to any of the foregoing, and such other agreements, documents, and instruments as Administrative Agent or Lenders may reasonably request in order to perfect and protect those Liens and preserve and protect the rights of Administrative Agent and Lenders in respect of all present and future Collateral.

5. Representations and Warranties. Borrower hereby represents and warrants to Administrative Agent and Lenders that (a) this Amendment and any Credit Documents to be delivered under this Amendment have been duly executed and delivered by Borrower, (b) no action of, or filing with, any Governmental Authority is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by Borrower of this Amendment and any Credit Document to be delivered under this Amendment, (c) this Amendment and any Credit Documents to be delivered under this Amendment are valid and binding upon Borrower and are enforceable against Borrower in accordance with their respective terms, except as limited by any applicable Debtor Relief Laws, (d) the execution, delivery and performance by Borrower of this Amendment and any Credit Documents to be delivered under this Amendment do not require the consent of any other Person and do not and will not constitute a violation of any Governmental Requirements, agreements or understandings to which Borrower is a party or by which Borrower is bound, (e) the representations and warranties contained in the Credit Agreement, as amended by this Amendment, and any other Credit Document are true and correct in all material respects as of the date of this Amendment, and (f) as of the date of this Amendment, no Event of Default or Potential Default exists or is imminent.

6. References. All references in the Credit Documents to the "Credit Agreement" refer to the Credit Agreement as amended by this Amendment. This Amendment is a "Credit Document" referred to in the Credit Agreement and the provisions relating to Credit Documents in the Credit Agreement are incorporated by reference, the same as if set forth verbatim in this Amendment.

7. Counterparts. This Amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document.

8. Parties Bound. This Amendment binds and inures to the benefit of Borrower, Administrative Agent and each Lender, and, subject to Section 14 of the Credit Agreement, their respective successors and assigns.

9. Entirety. THIS AMENDMENT, THE CREDIT AGREEMENT AS AMENDED BY THIS AMENDMENT, AND THE OTHER CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES FOR THE TRANSACTIONS THEREIN, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first stated above.

BANK ONE, NA,
as Administrative Agent and a Lender

By: /s/ JOHN M. CURTIN

John M. Curtin, Vice President

PMC COMMERCIAL TRUST,
as Borrower

By: /s/ JAN F. SALIT

Name: Jan F. Salit

Title: Executive Vice President

ANNEX A

SCHEDULE 2

Name and Address of Lender	Revolving Facility	Commitment Percentage
Bank One, NA 1717 Main Street, 3rd Floor Dallas, TX 75201 Attention: Bradley C. Peters, Vice President Tel 214/290-4146 Fax 214/290-2305	$35,000,000 (subject to reduction or cancellation as provided in the Credit Agreement)	100.000%
Total	$35,000,000	100.000%

EXHIBIT 10.23

INVESTMENT MANAGEMENT AGREEMENT

This Investment Management Agreement (the "AGREEMENT") dated this 1st day of July, 2002 by and among PMC Commercial Trust, a Texas real estate investment trust (the "COMPANY"), PMC Asset Management, Inc., a Texas corporation ("PMC ASSET" or the "INVESTMENT MANAGER"), a wholly-owned subsidiary of PMC Advisers, Ltd. ("PMC ADVISERS"), and PMC Capital, Inc. ("PMC CAPITAL").

1. CERTAIN DEFINITIONS

As used in this Agreement, the following terms have the meanings set forth below:

"Affiliate" shall mean a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned Person.

"Average Annual Value of All Invested Assets" shall mean the book value of the Invested Assets determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year divided by five.

"Average Annual Value of All Invested Assets at Date of Termination" shall mean the book value of the Invested Assets at Date of Termination determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year divided by five.

"Average Common Equity Capital" shall mean the Common Equity Capital on the first day of the year and on the last day of each quarter of such year, divided by five.

"Average Quarterly Value of All Assets" shall mean the book value of total assets of the Company or any Person wholly-owned (directly or indirectly) by the Company determined in accordance with GAAP on the first day of the quarter and on the last day of the quarter, divided by two.

"Average Quarterly Value of All Invested Assets" shall mean the book value of Invested Assets determined in accordance with GAAP on the first day of the quarter and on the last day of the quarter, divided by two.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Equity Capital" shall mean the sum of the stated capital plus the additional paid-in capital for the Common Shares.

"Common Shares" shall mean the Company's common shares of beneficial interest, par value $.01 per share.

"GAAP" shall mean generally accepted accounting principles.

"Independent Trust Managers" shall mean the trust managers of the Company who are not affiliated with PMC Capital or its subsidiaries.

"Invested Assets" shall have the meaning set forth in Section 2 of this Agreement.

"Invested Assets at Date of Termination" shall mean Primary Investments and Other Investments and any Primary Investments or Other Investments that arise from loan commitments, letters of intent or other agreements, in any case, as in existence on the Termination Date, as set forth on a schedule to be prepared by the Company and delivered to PMC Capital not later than 45 days from such date of termination, which schedule shall be annually updated by the Company and delivered to PMC Capital not later than 90 days following the end of each of the Company's fiscal years during which the Non-Compete Agreement (as defined in Section 10 of this Agreement) is in effect.

"Other Investments" shall have the meaning set forth in Section 2 of this Agreement.

"Person" shall mean an individual, corporation, partnership, association, trust or any unincorporated organization or other entity.

"Primary Investments" shall have the meaning set forth in Section 2 of this Agreement.

"Return on Average Common Equity Capital" means the net income of the Company determined in accordance with GAAP, less preferred dividends, if any, divided by the Average Common Equity Capital.

"Termination Date" shall mean the date on which this Agreement no longer has any force and effect, whether as a result of being terminated in accordance with the provisions of Section 10 hereof (following the expiration of the 60-day notice period provided for therein) or as a result of non-renewal (at the expiration of the term hereof) for whatever reason.

1. PURPOSE OF THE COMPANY

The Company intends primarily to originate business loans (a) to small business enterprises that exceed the net worth, asset, income, number of employees or other limitations applicable to the Small Business Administration ("SBA") programs utilized by PMC Capital, (b) in excess of $1,333,000 to small business enterprises without regard to SBA eligibility requirements, (c) for which PMC Capital does not have available funds to make such loans or (d) that cannot be originated by PMC Capital or its subsidiaries as a result of industry concentration limitations. All such loans (collectively, the "Primary Investments") will be secured by first liens on real estate and subject to the Company's underwriting criteria. In addition, the Company may (i) purchase from the Resolution Trust Company, the Federal Deposit Insurance Corporation and other sellers loans on which payments are current at the time of the Company's commitment to purchase and which meet the Company's underwriting criteria, (ii) invest in other commercial loans secured by real estate and (iii) invest in real estate (collectively, the "OTHER INVESTMENTS").

Concurrently with the execution of this Agreement, the Company, PMC Asset, and PMC Capital shall enter into a Loan Origination Agreement in the form of Exhibit A hereto (the "LOAN ORIGINATION AGREEMENT") pursuant to which PMC Asset shall determine the allocation of the loan origination opportunities to either the Company or PMC Capital.

The Company's primary investment objective is to obtain current income from interest payments and other related fee income from Primary Investments originated by it and Other Investments acquired by it and, in each case, owned by the Company or by any Person wholly-owned (directly or indirectly) by the Company (collectively, the "INVESTED ASSETS") for distribution to its shareholders. The Company will invest in Invested Assets selected by the Investment Manager in accordance with underwriting criteria established by the trust managers with the intention of creating a portfolio of investments intended to preserve the capital base of the Company and generate income for distribution to the Company's shareholders. The Company's investments are anticipated to be held primarily to maturity.

2. THE INVESTMENT MANAGER

PMC Asset shall act as the investment adviser to the Company and is registered with the applicable governmental authorities of the State of Texas. The Company hereto engages the services of PMC Asset as the Company's Investment Manager.

3. OBLIGATIONS OF THE INVESTMENT MANAGER

As the Investment Manager, PMC Asset will:

(a) advise the Company as to the acquisition and disposition of Invested Assets and temporary investments (collectively, "INVESTMENTS") in accordance with the Company's underwriting criteria and investment policies;

(b) provide the Company with office space and services to the extent required by the Company's trust managers, officers and employees;

(c) maintain the Company's books of account and other records and files;

(d) report to the Company's trust managers, or to any committee or officer of the Company acting pursuant to the authority of the trust managers, at such times and in such detail as the trust managers deem appropriate in order to enable the Company to determine that its investment policies are being observed and implemented;

(e) undertake its obligations pursuant hereto and any other activities undertaken by PMC Asset on the Company's behalf subject to any directives of the Company's trust managers or any duly constituted committee or officer of the Company acting pursuant to authority of the Company's trust managers;

(f) subject to the Company's investment policies and any specific directives from the Company's trust managers, to effect acquisitions and dispositions for the Company's account in the Investment Manager's discretion and to arrange for the documents representing acquired Investments to be delivered to the Company's custodian;

(g) on a continuing basis, monitor, manage and service the Company's Investments; and

(h) arrange debt and equity financing for the Company, subject to policies adopted by the Company's trust managers.

4. EXPENSES TO BE PAID BY THE INVESTMENT MANAGER

The Investment Manager will pay for its own account all expenses incurred by it in rendering the services hereunder without regard to the compensation received by the Investment Manager from the Company hereunder. Without limiting the generality of the foregoing, the Investment Manager shall bear the following expenses incurred in connection with the performance of its duties under this Agreement:

(a) employment expenses of the personnel employed by the Investment Manager (other than fees paid and reimbursement of expenses made to independent managers, independent contractors, mortgage services, consultants, managers, local property managers or agents employed by or on behalf of the Company including such persons or entities which may be Affiliates of the Investment Manager when acting in any such capacity, all of which shall be the responsibility of the Company), including but not limited to, salaries, wages, payroll taxes and the costs of employee benefit plans;

(b) rent, telephone, utilities, office furniture, equipment and machinery (including computers, to the extent utilized) and other office expenses of the Investment Manager, except to the extent such expenses relate solely to an office maintained by the Company separate from the office of the Investment Manager; and

(c) miscellaneous administrative expenses incurred in supervising, monitoring and inspecting real property and such other investments of the Company or relating to the performance by the Investment Manager of its obligations hereunder.

Notwithstanding the foregoing, any share options granted by the Company to directors, officers and key employees of the Investment Manager shall not be an expense to be borne by the Investment Manager pursuant to this Section 5.

5. EXPENSES TO BE PAID BY THE COMPANY

Except as expressly otherwise provided in this Agreement, the Company will pay any expenses incurred by the Company and will reimburse the Investment Manager promptly, against the Investment Manager's voucher, for any such expenses paid by the Investment Manager for the Company's account. Without limiting the generality of the foregoing, such expenses shall include:

(a) all expenses of the Company's organization and of any offering and sale by the Company of its shares;

(b) expenses of the Company operations, except as otherwise provided in Section 5 above;

(c) financing costs and debt service with respect to indebtedness of the Company;

(d) taxes on income and taxes and assessments on real property, if any, and all other taxes applicable to the Company;

(e) legal, auditing, accounting, underwriting, brokerage, listing, reporting, registration and other fees, and printing, engraving and other expenses and taxes incurred in connection with the issuance, distribution, transfer, trading, registration and stock exchange listing of the Company's securities, whether such expenses are directly incurred by the Company or are allocated to the Company by the Investment Manager either pursuant to this Agreement or as otherwise agreed to by the Board of Trust Managers of the Company from time to time;

(f) expenses of organizing, revising, amending, converting, modifying or terminating the Company;

(g) fees and expenses paid to trust managers and officers who are not employees or Affiliates of the Investment Manager, independent advisors, independent contractors, mortgage services, consultants, managers, local property managers or management firms, accountants, attorneys and other agents employed by or on behalf of the Company and out-of-pocket expenses of trust managers of the Company;

(h) expenses directly connected with the acquisition, disposition and ownership of Invested Assets, including real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, brokerage and sales commissions, maintenance, repair, improvement and local management of property), other than expenses with respect thereto of employees of the Investment Manager to the extent that such expenses are to be borne by the Investment Manager pursuant to Section 5 above, and any expenses allocated to the Company by the Investment Manager as agreed to by the Board of Trust Managers of the Company from time to time;

(i) all insurance costs incurred in connection with the Company (including officer and trust manager liability insurance, if any);

(j) expenses connected with payments of dividends or interest or contributions in cash or any other form made or caused to be made by the trust managers to holders of securities of the Company;

(k) all expenses connected with communications to holders of securities of the Company and other bookkeeping and clerical work necessary to maintaining relations with holders of securities, including the cost of printing and mailing certificates for securities and proxy solicitation materials and reports to holders of the Company securities;

(l) transfer agent's, registrar's and indenture trustee's fees and charges;

(m) legal, accounting and auditing fees and expenses; and

(n) expenses relating to any office or office facilities maintained by the Company separate from the office of the Investment Manager.

If the Company uses the services of attorneys or paraprofessionals on the staff of the Investment Manager in lieu of outside counsel for purposes other than the performance of the services to be performed by the Investment Manager hereunder, the Company will reimburse the Investment Manager for such services at hourly rates calculated to cover the cost of such services, as well as for incidental disbursements.

6. RECEIPT OF FEES

All fees that may be paid to the Investment Manager by any person in connection with any investment transaction in which the Company participates or proposes to participate shall be paid over or credited to the Company at the time such investment transaction is consummated. The Investment Manager may, on the other hand, retain for its own account any fees paid to it by any such person for any services rendered to such person which is not related to any such investment transaction. For this purpose, any fees paid for services rendered by attorneys on the staff of the Investment Manager in connection with any such investment transaction shall be treated as transaction costs and shall not be deemed to be fees paid to the Investment Manager in connection with any investment transaction. The Investment Manager will report to the Company's trust managers not less often than quarterly all fees received by the Investment Manager from any source whatever and whether, in its opinion, any such fee is one that the Investment Manager is entitled to retain under the provisions of this Section 7. In the event that any trust manager should disagree, the matter shall be conclusively resolved by a majority of the trust managers of the Company, including a majority of the Independent Trust Managers.

8. COMPENSATION OF THE INVESTMENT MANAGER

As the Investment Manager's sole and exclusive compensation for its services to be rendered pursuant to the terms set out above, the Company will, during the term of this Agreement, pay to the Investment Manager the following fees, beginning as of the date of this Agreement:

I. Quarterly in arrears, a fee ("BASE FEE") consisting of a quarterly servicing and advisory fee equal to the sum of (a) the product of 0.3875% (1.55% on an annual basis) multiplied by the lesser of (i) the Average Quarterly Value of Common Equity Capital or (ii) the Average Quarterly Value of All Invested Assets and (b) the product of 0.10% (0.40% on an annual basis) and the difference between the Average Quarterly Value of All Invested Assets and the Average Quarterly Value of Common Equity Capital. Notwithstanding the foregoing or any other provision contained herein, the Base Fee payable to the Investment Manager hereunder shall be reduced for each quarter during the term of this Agreement by an amount equal to the amount of servicing or supervisory servicing fees, if any, required to be paid for such quarter by the Company to any third party which is unaffiliated with the Company or the Investment Manager for the servicing of any Invested Assets. For purposes of calculating the Base Fee, the Average Quarterly Value of Common Equity Capital shall not be increased by the proceeds received from any public offering of Common Shares by the Company (other than pursuant to the Company's dividend reinvestment plan or any employee/trust manager benefit plan) during the 180 calendar day period immediately following such public offering.

II. Quarterly in arrears, a consulting fee equal to the sum of
(a) the product of 50% multiplied by the amount of fees contractually due to any third party assisting in the placement of any of the Company's debt securities or preferred shares of beneficial interest and (b) the product of 12.5% multiplied by the amount of any fees contractually due any third party assisting in the placement or underwriting of any private or public offering of Common Shares (the "OFFERING FEE"). If the Offering Fee is less than 5.5%, the consulting fee shall be increased by an amount equal to the product of
(i) 50% of the difference between 5.5% and the actual Offering Fee multiplied by (ii) the gross proceeds of the offering.

III. Quarterly in arrears, an origination fee (the "ORIGINATION FEE") equal to the product of 0.005 (1/2%) multiplied by the first $20 million in loans funded during a one year period. Thereafter, the origination fee shall be equal to the product of 0.0025 (1/4%) multiplied by the dollar amount of loans funded for the remainder of that one year period.

IV. A fee in the amount of ten thousand dollars ($10,000) due and payable upon the sale of any Amerihost property.

9. INDEMNIFICATION OF THE INVESTMENT MANAGER

The Company confirms that in performing services hereunder the Investment Manager (including its directors, officers and employees) will be an agent of the Company for the purpose of the indemnification provisions of the Company's Declaration of Trust, as amended, and Bylaws, subject, however, to the same limitations as though the Investment Manager were a director or officer of the Company. The Investment Manager shall not be liable to the Company, its shareholders or its creditors except for violations of law or for conduct which would preclude the Investment Manager from being indemnified under such provisions.

10. TERM OF THE AGREEMENT; TERMINATION

The term of this Agreement shall commence as of the first day of July 2002 and shall remain in effect and is renewable annually thereafter by the Company, if (a) a majority of the Independent Trust Managers determines that (i) the Investment Manager's performance has been satisfactory and (ii) the terms of this Agreement are appropriate with respect to the Company's performance and then existing economic conditions and (b) a majority of the independent directors of the Investment Manager approve the renewal of this Agreement.

Notwithstanding any other provision of this Agreement to the contrary, this Agreement, or any extension thereof, may be terminated by either party thereto upon at least sixty (60) days' notice to the other party specifying the effective date of such termination, pursuant to a majority vote of the Independent Trust Managers or upon the vote of the holders of more than two-thirds of the outstanding shares of the Company, or, in the case of a termination by the Investment Manager, by a majority vote of the independent directors of the Investment Manager.

In the event this Agreement is terminated or not renewed by (i) the Company, other than as a result of a material breach of the terms of this Agreement by the Investment Manager, or (ii) the Investment Manager as a result of a material breach of the terms of this Agreement by the Company, PMC Capital shall enter into a non-compete agreement, substantially in the form attached hereto as Exhibit B, which shall have a term of seven (7) years following the Termination Date (the "NON-COMPETE AGREEMENT"). The payment to be made by the Company to PMC Capital as consideration for the Non-Compete Agreement entered into as a result of in the occurrence of any event set forth in clause (i) or (ii) in the preceding sentence shall be an amount equal to the product of the Non-Compete Percentage (as hereinafter defined) multiplied by the Average Annual Value of All Invested Assets at Date of Termination, calculated and payable on an annual basis and prorated on the basis of a 360-day year for any portion of a calendar year during which the Non-Compete Agreement is in effect. In the event this Agreement is terminated or not renewed by (x) the Company as a result of a material breach of the terms of this Agreement by the Investment Manager or (y) the Investment Manager, other than as a result of a material breach of the terms of this Agreement by the Company, PMC Capital shall enter into the Non-Compete Agreement either on the terms and conditions provided herein and in Exhibit B hereto or, at the Company's option, such other terms as may be mutually agreeable to PMC Capital and the Company. The "Non-Compete Percentage" shall be equal to 1% less the amount of the percentage, determined by dividing the dollar amount of loan losses on the Invested Assets at Date of Termination in any year (or portion thereof) during which the Non-Compete Agreement is in effect (as determined based on the audited financial statements of the Company for that year), by the Average Annual Value of All Invested Assets at Date of Termination for such year, in excess of 1%. In no event will the annual fee payable pursuant to the Non-Compete Agreement be reduced below zero. Notwithstanding anything contained in this Section 10 to the contrary, in the event that, following the Termination Date, the Company has foreclosed on an outstanding loan and has liquidated the collateral relating thereto and otherwise exhausted all remedies available to it to collect any remaining deficiency on such obligation, the Company shall, upon written request of the Investment Manager, transfer to the Investment Manager all files related to such loan. If the Investment Manager is successful in collecting any additional amount of the deficiency it may retain 1% of such additional amount and shall return the remainder to the Company.

11. ASSIGNMENT, AMENDMENTS AND WAIVERS

The Company may terminate this Agreement at any time in the event of its assignment by the Investment Manager except an assignment to a corporation, association, trust or other successor organization which may take over the property and carry on the affairs of the Investment Manager, provided that following such assignment the Persons who controlled the operations of the Investment Manager on the date such Investment Manager became an advisor to the Company shall control the operation of the successor organization, including the performance of its duties under this Agreement, and they shall be bound by the same restrictions by which they were bound prior to such assignment; however, if at any time subsequent to such an assignment such Persons shall cease to control the operations of the successor organization, the Company may thereupon terminate this Agreement. Such an assignment or any other assignment of this Agreement by the Investment Manager shall bind the assignee hereunder in the same manner as the Investment Manager is bound hereunder. This Agreement shall not be assignable by the Company without the prior written consent of the Investment Manager, except in the case of any assignment by the Company to a Person which is the successor to the Company, in which case such successor shall be bound hereby and by the terms of said assignment in the same manner and to the same extent as the Company is bound hereby. Any successor organization that is a permitted assignee under this Section 11, whether a successor to the Investment Manager or to the Company, shall be obligated to execute such agreements, certificates or other documents as the nonassigning party shall reasonably request to evidence that such successor organization is bound hereby.

This Agreement may not be amended, supplemented or discharged, and none of its provisions may be modified, except expressly by an instrument in writing signed by the party to be charged, provided that, in the case of the Company, such amendment, supplement, discharge or modification must be approved by a majority vote of the Independent Trust Managers or by a vote of the holders of more than two-thirds of the outstanding shares of the Company and, in the case of the Investment Manager, such amendment, supplement, discharge or modification must be approved by a majority vote of the independent directors of the Investment Manager. Any term or provision of this Agreement may be waived, but only in writing by the party which is entitled to the benefit of that provision. No waiver by any party of any default with respect to any provision, condition or requirement hereof shall be deemed to be a continuing waiver in the future thereof or a waiver of any other provision, condition or requirement hereof; nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

12. OTHER ACTIVITIES OF INVESTMENT MANAGER

Nothing herein shall prevent the Investment Manager or its Affiliates from engaging in other activities or businesses or from acting as advisor to any other Person (including other real estate investment trusts) or from managing other investments including those of investors or investments advised, sponsored or organized by the Investment Manager even though such Person has investment policies and objectives similar to those of the Company; provided, however, that the Investment Manager shall notify the Company in writing in the event that it does so act (or intends to so act) as an advisor to another real estate investment trust. The Investment Manager may also render such services to joint ventures and partnerships in which the Company is a co-venturer or partner and to the other entities in such joint ventures and partnerships. Except with respect to loan origination opportunities allocated pursuant to the Loan Origination Agreement, the Investment Manager shall be free from any obligation to present to the Company any particular investment opportunity which comes to the Investment Manager. In addition, nothing herein shall prevent any shareholder or Affiliate of the Investment Manager from engaging in any other business or from rendering services of any kind to any other corporation, partnership or other entity (including competitive business activities).

Directors, officers, employees and agents of the Investment Manager or of its Affiliates may serve as trust managers, officers, employees, agents, nominees or signatories of the Company. When executing documents or otherwise acting in such capacities for the Company, such persons shall use their respective titles in the Company. Such persons shall receive from the Company no compensation for their services to the Company in such capacities.

13. BANK ACCOUNTS

The Investment Manager shall establish and maintain one or more bank accounts in its own name or, at the direction of the trust managers, in the name of the Company, and shall collect and deposit into such account or accounts and disburse therefrom any monies on behalf of the Company, provided that no funds in any such account shall be commingled with any funds of the Investment Manager or any other Person. The Investment Manager shall from time to time render an appropriate accounting of such collections and payments to the trust managers and to the auditors of the Company.

14. PROTECTION OF INVESTMENTS

The Investment Manager shall use its efforts, in cooperation with the legal counsel to the Company, as deemed appropriate in the Investment Manager's reasonable discretion, (a) to verify title to or procure title insurance in respect of any property in which the Company makes or proposes to make any investment; (b) to verify that any mortgage securing any Investment of the Company shall be a valid lien upon the mortgaged property according to its terms; that any insurance or guaranty issued by the Federal Housing Authority, the Veterans Administration or any similar agency of the United States or Canada, or any subdivision thereof, or any private mortgage insurance company, upon which the trust managers rely, is valid and in full force and effect and enforceable according to its terms; and that any commitments to provide permanent financing on property with respect to which the Company is furnishing interim loans are satisfactory; and (c) to carry on the policies from time to time specified by the trust managers with regard to the protection of the Company's Investments.

15. RECORDS

The Investment Manager shall maintain appropriate books of account and records relating to services performed pursuant hereto, which books of account and records shall be available for inspection by representatives of the Company upon reasonable notice during normal business hours.

16. REIT QUALIFICATION

Anything else in this Agreement to the contrary notwithstanding, the Investment Manager shall not take any action (including, without limitation, furnishing or rendering services to tenants of property or managing real property), which action, in its judgment made in good faith, or in the judgment of the trust managers as transmitted to the Investment Manager in writing, would
(a) adversely affect the status of the Company as a real estate investment trust as defined and limited in the Code or which would make the Company subject to the Investment Company Act of 1940, as amended, if not in the best interest of the Company's shareholders or (b) violate any law, rule, regulation or statement of policy of any government body or agency having jurisdiction over the Company or over its securities, or (c) otherwise not be permitted by the Declaration of Trust, as amended, or Bylaws of the Company, except if such action shall be ordered by the trust managers, in which event the Investment Manager shall promptly notify the trust managers of the Investment Manager's judgment that such action or omission to act would adversely affect such status or violate any such law, rule or regulation or the Declaration of Trust, as amended, or Bylaws of the Company and shall refrain from taking such action pending further clarification or instructions from the trust managers. In addition, the Investment Manager shall take such affirmative steps which, in its good faith judgment, or in the judgment of the trust managers as transmitted to the Investment Manager in writing, would prevent or cure any action described in
(a), (b) or (c) above.

17. SELF-DEALING

Neither the Investment Manager nor any Affiliate of the Investment Manager shall sell any property or assets to the Company or purchase any property or assets from the Company, directly or indirectly, except as approved by a majority of the Independent Trust Managers, provided that any Person wholly-owned (directly or indirectly) by the Company may sell property or assets to the Company or purchase assets from the Company without such approval. In addition, except as approved by a majority of the Independent Trust Managers, neither the Investment Manager nor any Affiliate of the Investment Manager shall receive any commission or other remuneration, directly or indirectly, in connection with the activities of the Company (except as expressly provided herein) or any joint venture or partnership in which the Company is a party, unless such joint venture or partnership is wholly-owned (directly or indirectly) by the Company. Except for compensation received by the Investment Manager pursuant to Section 8 hereof, all commissions or other remuneration received by the Investment Manager or an Affiliate of the Investment Manager and not approved by the Independent Trust Managers under this Section 17 shall be reported to the Company annually within ninety (90) days following the end of the Company's fiscal year.

18. NO PARTNERSHIP OR JOINT VENTURE

The Company and the Investment Manager are not partners or joint venturers with each other and neither the terms of this Agreement nor the fact that the Company and the Investment Manager have joint interest in any one or more investments shall be construed so as to make them such partners or joint venturers or impose any liability as such on either of them.

19. FIDELITY BOND

The Investment Manager shall not be required to obtain or maintain a fidelity bond in connection with the performance of its services hereunder.

20. JURISDICTION

This Agreement shall be governed by the laws of Texas.

21. LIMITATION OF LIABILITY

The Declaration of Trust establishing the Company (the "Declaration"), a copy of which is duly filed with the County Clerk for Dallas County, Texas, provides that the name "PMC Commercial Trust" refers to the trust managers under the Declaration collectively as trust managers, but not individually or personally; and that no trust manager, officer, shareholder, employee or agent of the Company or its subsidiaries shall be held to any personal liability, jointly or severally, for any obligation of, or claim against, the Company or its subsidiaries. All persons dealing with the Company, in any way, shall look only to the assets of the Company for the payment of any sum or the performance of any obligations. Notwithstanding the foregoing, the Investment Manager hereby acknowledges and agrees that it shall look only to the assets of the Company for the payment of any sum or performance of any obligations due by or from the Company pursuant to the terms and provisions hereof. Furthermore, except as otherwise expressly provided herein, in no event shall the Company (original or successor) ever be liable to the Investment Manager for any indirect or consequential damages suffered by the Investment Manager from whatever cause.

22. SURVIVAL OF OBLIGATIONS

The obligations of the Company, PMC Capital and the Investment Manager set forth in Section 10 hereof shall survive any termination or non-renewal of this Agreement for a period of seven (7) years following the Termination Date.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

PMC COMMERCIAL TRUST

By: /s/ Lance B. Rosemore

Lance B. Rosemore
President

PMC ASSET MANAGEMENT, INC.

By: /s/ Lance B. Rosemore

Lance B. Rosemore
President

PMC CAPITAL, INC.

By: /s/ Lance B. Rosemore

Lance B. Rosemore
President

LOAN ORIGINATION AGREEMENT

This Loan Origination Agreement dated as of July 1, 2002 (this "AGREEMENT") is made and entered into by and among PMC Commercial Trust, a Texas real estate investment trust (the "COMPANY"), PMC Asset Management, Inc., a Texas corporation (the "INVESTMENT MANAGER") and a wholly-owned subsidiary of PMC Advisers, Ltd. a Texas limited partnership ("PMC ADVISERS"), and PMC Capital, Inc., a Florida corporation ("PMC CAPITAL").

WHEREAS, management of PMC Capital believes that loan origination opportunities exist for loans that generally conform to the lending criteria and customer profile of PMC Capital's lending business, but that involve borrowers that exceed SBA eligibility requirements or that exceed the lending capacity of PMC Capital to fund; and

WHEREAS, the Company was organized as a result of the decision of the board of directors of PMC Capital that the amount of capital required to fund the types of investments contemplated by a Company is not available to PMC Capital without significant dilution to existing shareholders of PMC Capital or substantial leverage, if at all; and

WHEREAS, the board of directors of PMC Capital determined that the creation of the Company as a separate entity to originate such loans was appropriate; and

WHEREAS, the board of directors of PMC Capital also determined that the shareholders of PMC Capital would benefit by establishing the Investment Manager as an indirect wholly owned subsidiary of PMC Capital in order to more fully utilize the in-house staff and facilities of PMC Capital while providing the shareholders of PMC Capital the benefit of the advisory fees to be paid to the Investment Manager; and

WHEREAS, the Company, the Investment Manger and PMC Capital desire to define a system which will determine whether the Company or PMC Capital shall have the right to make any proposed loan, as such opportunities arise from time to time;

NOW, THEREFORE, in consideration of the mutual agreements and covenants herein contained, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

Defined terms in this Agreement shall include in the singular number the plural and in the plural number the singular.

"Industry Concentration Limits" shall mean the limitations on loans made within a particular industry applicable to PMC Capital or its subsidiaries, which are a part of PMC Capital's fundamental policies enumerated in its SEC filing as such may be amended from time to time.

"SBA" shall mean the United States Small Business Administration.

"SBIC" shall have the meaning ascribed to such term in the Underwritten Offering.

"Underwritten Offering" shall mean the initial public offering of the Company pursuant to the Company's registration statement on Form S-11, number 33-65010 as filed with the Securities and Exchange Commission.

SECTION 2. DETERMINATION OF LOAN OPPORTUNITIES

The Company, the Investment Manager and PMC Capital hereby agree that upon completion of the Underwritten Offering, to the extent that the Company has funds available to make a proposed loan, no loans will be made by PMC Capital other than (i) loans in an original principal amount not exceeding $1,333,000 made pursuant to the SBA Section 7(a) or SBIC loan programs utilized by PMC Capital's subsidiaries and (ii) bridge loans to be refinanced by SBA Section 7(a) or SBIC loans upon approval of the SBA loan application. The criteria to be used by the Investment Manager for determination of how loan origination opportunities are allocated between the Company and PMC Capital is further illustrated in the flowchart attached hereto as Annex A.

SECTION 3. MISCELLANEOUS

3.1 Governing Law; Submission to Jurisdiction. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of Texas.

3.2 Waivers and Amendments. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Company, the Investment Manager and PMC Capital.

3.3 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company, the Investment Manger and PMC Capital and any of their respective successors and assigns, except that no party may assign this Agreement without prior written consent of the other parties.

IN WITNESS HEREOF, each party hereto has caused its duly authorized officer to execute and deliver this Agreement as of the date first above written.

PMC COMMERCIAL TRUST

By: /s/ Lance B. Rosemore
Lance B. Rosemore
President

PMC ASSET MANAGEMENT, INC.

By: /s/ Lance B. Rosemore
Lance B. Rosemore
President

PMC CAPITAL, INC.

By: /s/ Lance B. Rosemore
Lance B. Rosemore
President

EXHIBIT 10.24

DISTRIBUTION AND INDEMNIFICATION AGREEMENT

THIS DISTRIBUTION AND INDEMNIFICATION AGREEMENT (this "AGREEMENT") is made and entered into as of the ___ day of ____, _____, by and among PMC JOINT VENTURE, L.P. _________, a Delaware limited partnership (the "PARTNERSHIP"), PMC CAPITAL, INC., a Florida corporation ("PMC") and PMC COMMERCIAL TRUST, a Texas real estate investment trust ("PMCT").

RECITALS:

A. Concurrently with the execution of this Agreement (i) the Partnership has entered into that certain Trust Indenture with _______________, an _____________, dated as of _____, _____ (the "INDENTURE"), pursuant to which the Partnership issued $_________ of its PMC Joint Venture, L.P. ______ Loan-Backed ___________ Notes (the "NOTES"), which are secured by, among other things, certain loans originated by and transferred to the Partnership by PMC and PMCT (the "LOANS"). All capitalized terms not other wise defined herein shall have the same meanings as ascribed to them in the Indenture;

B. PMC Joint Venture ____________, a Delaware limited liability company the ("GENERAL PARTNER") is the general partner of the Partnership. Based solely upon the outstanding principal balance of the Loans that PMC transferred to the Partnership, PMC owns a _____________________ percent (____%) equity ownership interest in the General Partner and a ___________________ (___%) limited partner interest in the Partnership. Based solely upon the outstanding principal balance of the Loans that PMCT transferred to the Partnership, PMCT owns a _____________________ percent (____%) equity ownership interest in the General Partner and a ___________________ (___%) limited partner interest in the Partnership;

C. PMC, PMCT and the Partnership have entered into the transactions contemplated by the Indenture pursuant to an Exemptive Order granted to the parties by the Securities and Exchange Commission dated effective November 21, 2000 (the "EXEMPTIVE ORDER");

D. The Exemptive Order requires that PMC and PMCT comply with certain conditions in connection with any such joint securitization transaction to assure that the consideration to be received by PMC is fair and reasonable and would not involve overreaching of PMC or its shareholders on the part of any person concerned; and

E. To comply with these conditions and to further induce PMC and PMCT to enter into the joint securitization transaction, the parties hereto have agreed to certain distribution allocations and indemnities as set forth herein.

NOW, THEREFORE, for and in consideration of the foregoing recitals and the promises, mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Distributions. The relative ownership interests of PMC and PMCT in the Partnership and the General Partner and the initial amount of net proceeds that each one received in respect of the Loans that it transferred to the Partnership was based on the aggregate outstanding principal balance of the Loans each party transferred to the Partnership, without regard to the different interest rates on such Loans. Partnership distributions will continue to be made pursuant to the relative partnership interests of PMC and PMCT; provided, however, pursuant to the conditions set forth in the Exemptive Order, and to ensure that each of PMC and PMCT benefits from the value of the Loans it transferred to the Partnership, notwithstanding anything to the contrary contained in the Partnership's Agreement of Limited Partnership (the "PARTNERSHIP AGREEMENT"), the parties hereto hereby agree that all subsequent distributions to be made to PMC and PMCT will be allocated proportionately (after giving effect to any allocation adjustments that are necessary to proportionately allocate the distributions during any period when the amount on deposit in the Spread Account is less than the Specified Spread Account Requirement) between PMC and PMCT based upon the relationship that the amount of the funds then available for distribution to PMC and PMCT that is attributable to the Loans (including interest earned thereon) that were transferred to the Partnership by each such party bears to the total amount of funds then available for distribution to PMC and PMCT pursuant to the terms of the Indenture. In the event that on any distribution date, either PMC or PMCT does not receive the full amount of the distribution to which it would otherwise be entitled to receive as a result of the non-performance or losses caused by or attributable to the Loans transferred to the Partnership by the other party, the party whose Loans caused PMC or PMCT, as the case may be, not to receive its full distribution amount shall promptly reimburse the other party in the full amount of the deficiency.

2. Mutual Indemnification. Each of PMC and PMCT hereby covenants and agrees, at its sole cost and expense, to indemnify, protect, hold harmless and defend the other from and against any and all claims, demands, damages, losses, liabilities, obligations, penalties, fines, actions, causes of action, judgments, suits, proceedings, costs, disbursements and expenses (including, without limitation, reasonable attorneys' fees and expenses) (collectively "LOSSES"), which may at any time be imposed upon, incurred, or suffered by, or asserted or awarded against, PMC or PMCT, as the case may be, and directly or indirectly relating to or arising from (i) a default by such party under the Indenture or the other Transaction Documents (as defined in the Indenture) after the date hereof, and (ii) any Loss suffered by the other party including, without limitation, a Loss to the value of the other party's residual interest in the Loans it transferred to the Partnership or any Loss resulting from an increase in the reserve requirements under the Indenture occurring as a result of the non-performance of the Loans transferred to the Partnership by such party. The amount of any such indemnification to be paid or received by PMC or PMCT, as the case may be, pursuant to this Paragraph 2 must be approved by such person's board of directors or board of trust managers, as the case may be.

3. Compliance with Exemptive Order. Subject to all applicable laws (including, without limitation, all fiduciary duties), each of PMCT and PMC hereby agrees that, at any time and from time to time after the date hereof, it shall, and without further consideration, perform such other and further acts, and execute, acknowledge and deliver, or cause to be acknowledged and delivered, such further instruments, documents and assurances as may reasonably be necessary for the purpose of complying with the Exemptive Order and the applicable requirements of the Securities and Exchange Commission.

4. Miscellaneous.

(a) The covenants, agreements, indemnities, terms and conditions contained in this Agreement shall extend to and be binding upon the parties hereto, their respective successors and assigns, and shall inure to the benefit of, and may be enforced by the parties hereto, or any of them, and their respective successors and assigns. The reimbursement and indemnification provisions contained herein shall survive the repayment of the Notes.

(b) Each of PMC and PMCT represents and warrants to the other that it has the full right, power and authority to enter into and perform its obligations under this Agreement, all without the consent or approval of any natural person, trust, corporation, partnership, joint venture, limited liability company or other entity.

(c) No provision of this Agreement may be changed, waived, discharged or terminated by any means other than an instrument in writing signed by the party against whom the enforcement of the change, waiver, discharge or termination is sought.

(d) Every provision of this Agreement is intended to be severable. If any provision hereof or the application of any provision hereof to any party or circumstance is declared to be illegal, invalid or unenforceable for any reason whatsoever by a court of competent jurisdiction, such invalidity shall not affect the balance of the terms and provisions hereof or the application of the provision in question to any other party or circumstance, all of which shall continue in full force and effect.

(e) The indemnifying party shall reimburse the indemnified party for all reasonable attorneys fees and expenses incurred in connection with the enforcement of the indemnified party's rights under this Agreement, including those incurred in any case, action, proceed or claim under the Federal Bankruptcy Code or any successor statute.

(f) No failure or delay on the part of the indemnified party to exercise any right, power or privilege under this Agreement shall operate as a waiver thereof.

(g) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS IN EXISTENCE AT THE TIME OF THE EXECUTION OF THIS AGREEMENT, OR AS THEREAFTER MODIFIED, AMENDED OR RECODIFIED.

(h) Time is of the essence as to all of the obligations of an indemnitor under this Agreement.

(i) PMC represents and warrants that it will directly or indirectly benefit from the transactions contemplated by the Indenture, and that its entering into this Agreement is in its best interest. PMCT represents and warrants that it will directly or indirectly benefit from the transactions contemplated by the Indenture, and that its entering into this Agreement is in its best interest.

(j) The Partnership is a party to this Agreement solely to the extent necessary to further define the rights of PMC and PMCT to receive distributions from the Partnership. This Agreement does not and is not intended to create any additional liabilities or obligations in respect of the Partnership.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date and year first above written.

THE PARTNERSHIP:

PMC JOINT VENTURE, L.P. _______,
a Delaware limited partnership

By: PMC Joint Venture LLC _______,
a Delaware limited liability company
Its: General Partner

By:

Name:
Title:

PMC:

PMC CAPITAL, INC.,
a Florida corporation

By:

Name:
Title:

PMCT:

PMC COMMERCIAL TRUST,
a Texas real estate investment trust

By:

Name:
Title:

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EXHIBIT 21.1
SUBSIDIARIES OF REGISTRANT

COMPANY	STATE OF INCORPORATION
PMC Commercial Trust, Ltd. 1998-1	Delaware
PMCT Corp. 1998-1	Delaware
PMCT Sycamore, L.P.	Delaware
PMCT AH Sycamore, Inc.	Delaware
PMCT Macomb, L.P.	Delaware
PMCT AH Macomb, Inc.	Delaware
PMCT Marysville, L.P.	Delaware
PMCT AH, Inc..	Delaware
PMCT Plainfield, L.P.	Delaware
PMC Joint Venture, L.P. 2000	Delaware
PMC Joint Venture LLC 2000	Delaware
PMC Joint Venture, L.P. 2001	Delaware
PMC Joint Venture LLC 2001	Delaware
PMC Joint Venture, L.P. 2002-1	Delaware
PMC Joint Venture LLC 2002-1	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (file No. 333-24767) of PMC Commercial Trust of our reports dated March 11, 2003, except for Note 18, as to which the date is March 27, 2003, relating to the consolidated financial statements and the financial statement schedules, which appear in this Form 10-K.

PricewaterhouseCoopers LLP
Dallas, Texas
March 31, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of PMC Commercial Trust (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lance B. Rosemore, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lance B. Rosemore

Lance B. Rosemore
Chief Executive Officer
March 31, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of
Section 18 of the Securities Exchange Act of 1934.

A signed original of this statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of PMC Commercial Trust (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry N. Berlin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry N. Berlin

Barry N. Berlin
Chief Financial Officer
March 31, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

A signed original of this statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.