AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 10, 1996

FILE NO. 333-2757

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-11

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PMC COMMERCIAL TRUST
(Exact Name of Registrant as Specified in its Governing Instruments)

17290 PRESTON ROAD, DALLAS, TEXAS 75252
(214) 380-0044
(Address of Principal Executive Offices)

LANCE B. ROSEMORE, PRESIDENT
PMC COMMERCIAL TRUST
17290 PRESTON ROAD
DALLAS, TEXAS 75252
(214) 380-0044
(Name and Address of Agent for Service)

Copies to:

KENNETH L. BETTS, ESQ. WINSTEAD SECHREST & MINICK P.C. 5400 RENAISSANCE TOWER 1201 ELM STREET DALLAS, TEXAS 75270 (214) 745-5400	LEE A. MEYERSON, ESQ. SIMPSON THACHER & BARTLETT 425 LEXINGTON AVENUE NEW YORK, NEW YORK 10017 (212) 455-2000

APPROXIMATE DATE OF COMMENCEMENT OF THE PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PMC COMMERCIAL TRUST

CROSS REFERENCE SHEET

ITEM NO.	ITEM CAPTION	LOCATION IN PROSPECTUS
1	Forepart of Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover Page
2	Inside Front and Outside Back Cover Pages of Prospectus	Inside Front Cover Page and Outside Back Cover Page
3	Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges	Prospectus Summary; Risk Factors; Business
4	Determination of Offering Price	Outside Front Cover Page
5	Dilution	Not applicable
6	Selling Security Holders	Not applicable
7	Plan of Distribution	Underwriting
8	Use of Proceeds	Use of Proceeds
9	Selected Financial Data	Selected Financial Data
10	Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion and Analysis of Financial Condition and Results of Operations
11	General Information as to Registrant	Business; Management; Certain Provisions of the Texas REIT Act and the Company's Declaration of Trust and Bylaws
12	Policy with Respect to Certain Activities	Business
13	Investment Policies of Registrant	Prospectus Summary; Business
14	Description of Real Estate	Not applicable
15	Operating Data	Not applicable
16	Tax Treatment of Registrant and Its Security Holders	Federal Income Tax Considerations
17	Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters	Outside Front Cover Page; Price Range of Common Shares; Dividends and Distributions Policy; Description of Shares of Beneficial Interest
18	Description of Registrant's Securities	Description of Shares of Beneficial Interest
19	Legal Proceedings	Business
20	Security Ownership of Certain Beneficial Owners and Management	Principal Shareholders
21	Directors and Executive Officers	Management
22	Executive Compensation	Management; Investment Manager
23	Certain Relationships and Related Transactions	Risk Factors; Investment Manager
24	Selection, Management and Custody of Registrant's Investments	Business; Investment Manager
25	Policies with Respect to Certain Transactions	Business
26	Limitations of Liability	Management; Description of Shares of Beneficial Interest
27	Financial Statements and Information	Prospectus Summary; Selected Financial Data; Financial Statements
28	Interests of Named Experts and Counsel	Experts; Legal Matters
29	Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Not applicable

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* INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.
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SUBJECT TO COMPLETION, DATED JUNE 10, 1996

2,000,000 SHARES

PMC COMMERCIAL TRUST
COMMON SHARES OF BENEFICIAL INTEREST

PMC Commercial Trust (the "Company") is a Texas real estate investment trust that originates loans to small business enterprises which are primarily collateralized by first liens on real estate of the related business. The Company principally lends to small businesses in the lodging industry. The Company also targets the commercial real estate, service, retail and manufacturing industries. See "Business." The Company's investment advisor is PMC Advisers, Inc., a wholly-owned subsidiary of PMC Capital, Inc. and an affiliate of the Company. See "Investment Manager." The Company has elected to be taxed as a real estate investment trust ("REIT") for Federal tax purposes. See "Federal Income Tax Considerations."

All of the Common Shares of Beneficial Interest of the Company, $.01 par value per share (the "Common Shares"), offered hereby are being sold by the Company. In addition to the 2,000,000 Common Shares offered by the Underwriters (the "Underwritten Offering"), the Company is offering, by means of this Prospectus, 60,000 Common Shares (the "Direct Offering") directly to certain officers and trust managers of the Company at the Price to Public net of Underwriting Discount. Upon completion of the Underwritten Offering and the Direct Offering (together, the "Offering"), the executive officers and trust managers of the Company will beneficially own 3.5% of the issued and outstanding Common Shares.

The Common Shares are listed on the American Stock Exchange under the symbol "PCC." On June 6, 1996, the closing sales price of the Common Shares as reported on the American Stock Exchange was $16.125 per share. See "Price Range of the Common Shares." On May 23, 1996, the Company declared a quarterly dividend of $0.38 per Common Share payable on July 15, 1996 to holders of record as of June 28, 1996. Purchasers of Common Shares in the Offering will not be entitled to receive such dividend. The Company has paid, and intends to continue to pay, quarterly dividends to its shareholders. See "Price Range of Common Shares" and "Dividends and Distributions Policy."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS RELEVANT TO AN INVESTMENT IN THE COMMON SHARES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Total(3)	$	$	$ (4)

(1) See "Underwriting" for information concerning indemnification of the Underwriters and other information.

(2) Before deducting expenses of the Offering estimated at $300,000 payable by the Company.

(3) The Company has granted the Underwriters an option, exercisable, from time to time, within 30 days, to purchase up to 300,000 additional Common Shares at the Price to Public per share, less the Underwriting Discount, for the purposes of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

(4) Excludes $ to be received by the Company from the Direct Offering if all Common Shares offered in the Direct Offering are sold.

The Common Shares are offered by the Underwriters when, as and if delivered to and accepted by them, subject to their right to withdraw, cancel or reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of certificates representing the Common Shares will be made against payment on or about , 1996 at the office of Oppenheimer & Co., Inc., Oppenheimer Tower, World Financial Center, New York, New York 10281.

OPPENHEIMER & CO., INC.

J.C. BRADFORD & CO.

FAHNESTOCK & CO. INC.

The date of this Prospectus is June , 1996

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON SHARES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET OR ON THE AMERICAN STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission") pursuant to the Exchange Act. Such reports, proxy statements and other information filed by the Company can be examined without charge at, or copies obtained upon payment of the prescribed fees from, the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at 7 World Trade Center, 13th Floor, New York, New York 10048 and at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Such reports, proxy statements and other information can also be inspected without charge, or copies obtained upon payment of the prescribed fees, at the offices of the American Stock Exchange located at 86 Trinity Place, New York, New York 10006.

The Company has filed with the Commission a Registration Statement on Form S-11 under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, with respect to the Common Shares offered pursuant to this Prospectus. This Prospectus, which is part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and financial statement schedules thereto. For further information with respect to the Company and the Common Shares offered hereby, reference is made to the Registration Statement and such exhibits and financial statement schedules, copies of which may be examined without charge at, or obtained upon payment of prescribed fees from, the Commission and its regional offices at the locations listed above.

Statements contained in this Prospectus as to the contents of any contract or other document which is filed as an exhibit to the Registration Statement are not necessarily complete, and each such statement is qualified in its entirety by reference to the full text of such contract or document.

The Company is required to file reports and other information with the Commission pursuant to the Exchange Act. In addition to applicable legal or American Stock Exchange requirements, if any, holders of the Common Shares receive annual reports containing audited financial statements with a report thereon from the Company's independent public accountants, and upon request quarterly reports containing unaudited financial information for each of the first three quarters of each fiscal year.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed description and financial information and statements, and the notes thereto, appearing elsewhere in this Prospectus. Except as otherwise indicated, all information in this Prospectus assumes that the Underwriters' over-allotment option will not be exercised. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Glossary.

THE COMPANY

PMC Commercial Trust (the "Company") originates loans to small business enterprises which are primarily collateralized by first liens on real estate of the related business. The Company principally lends to small businesses in the lodging industry. The Company also targets the commercial real estate, service, retail and manufacturing industries. The Company, a Texas real estate investment trust, was formed in June 1993, completed its initial public offering in December 1993 and has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

The Company lends primarily to borrowers involved in the lodging industry. The majority of the Company's loans in the lodging industry are to owner-operated facilities generally under national hotel or motel franchises. As of March 31, 1996, (i) 96% of the Company's loan portfolio consisted of loans for the acquisition, renovation and construction of hotels, and (ii) Days Inn and Holiday Inn franchisees accounted for 20.3% and 18.5%, respectively, of the Company's outstanding loan portfolio. Management believes that borrowers in the hotel and motel franchise industry are underserved by traditional lending sources. Based on statistics prepared by the Small Business Administration (the "SBA"), SBA loans to the lodging industry had lower delinquencies and charge-offs as compared to the average of all SBA loans for the ten year period ended December 31, 1994. In addition, based on its lending history and the lending history of PMC Capital, Inc., the Company believes that loans to such lodging franchisees generally represent better credit risks than loans to other types of hotel and motel businesses because such businesses (i) employ proven business concepts, (ii) have consistent product quality, (iii) are screened and monitored by franchisors, and (iv) generally have a higher rate of success as compared to other independent lodging businesses.

From commencement of operations through March 31, 1996, the Company originated or purchased 76 loans in an aggregate principal amount funded of approximately $75 million. At March 31, 1996, all loans were paying as agreed, and the Company had experienced no loan losses and no charge-offs. There can be no assurance, however, that the Company will not experience loan losses and charge-offs in the future. The loan amounts generally do not exceed the lesser of 70% of the fair value or cost of the collateral.

The investments of the Company are managed by PMC Advisers, Inc. (the "Investment Manager" or "PMC Advisers"), a wholly-owned subsidiary of PMC Capital, Inc. (together with its subsidiaries, "PMC Capital"). The Company is an affiliate of PMC Capital, which primarily engages in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. The predecessor to PMC Capital, Inc. was incorporated in 1979, and the common stock of PMC Capital, Inc. is currently traded on the American Stock Exchange.

The Company's principal business objective is to maximize shareholder returns by expanding its loan portfolio while adhering to its underwriting criteria. The Company currently has three principal strategies to achieve this objective. First, the Company expects to continue to benefit from the established customer base of PMC Capital due to the referral system available through PMC Advisers. Many of the Company's existing and potential borrowers have other projects that are currently financed by PMC Capital; however, their financing needs have grown over time and now exceed the limitations set for SBA approved loan programs. In addition, borrowers who have financial strength and stability in excess of the SBA loan program criteria represent continuing lending opportunities. Second, the Company is seeking to expand its relationships with national hotel and motel franchisors to secure a consistent flow of lending opportunities. For example, on April 12, 1996, the Company entered into a marketing agreement with U.S. Franchise Systems, Inc. ("USFS") whereby USFS, through its wholly-owned subsidiary, Microtel Inns and Suites Franchising, Inc.

("Microtel"), will present and market to prospective Microtel franchisees the Company's current financing programs. The third principal strategy of the Company is to continue to obtain cost-effective financing to maximize its growth. On March 12, 1996, the Company completed a private placement of $29,500,000 of Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"), through a special purpose affiliate of the Company, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership (the "Partnership"). The Company owns, directly or indirectly, all of the interests in the Partnership. In connection with the private placement, the Notes received a "AA" rating from Duff & Phelps Credit Rating Co.

The Company's principal executive offices are located at 17290 Preston Road, Dallas, Texas 75252, and its telephone number is (214) 380-0044.

RISK FACTORS

An investment in the Common Shares involves various risks, and prospective investors should carefully consider the matters discussed under "Risk Factors" prior to any investment in the Company. Such risks include, among others:

- Substantially all of the Company's outstanding loans were to businesses in the lodging industry (96% at March 31, 1996).

- The Company's business is subject to the risk that borrowers will not satisfy their debt service obligations and the risk that the value of the collateral securing a loan may be insufficient to meet all obligations.

- The Company is dependent for the selection, structuring, closing and monitoring of its investments on the officers of the Investment Manager.

- Many entities, as well as individuals, compete for investments similar to those proposed to be made by the Company, some of whom have far greater resources than the Company.

- The officers of the Company and the Investment Manager will be subject to certain potential conflicts of interest.

- Interest rate mismatches could negatively impact the Company's net income and dividend yield and the market price of the Common Shares.

- The Company will be taxed at corporate rates if it fails to maintain its qualification as a REIT.

- The Company borrows for the purpose of investment leverage, which may be considered a speculative investment technique.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following table sets forth summary financial data of the Company and should be read in conjunction with the financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus. The summary financial data below provides information about the Company's financial history and may not be indicative of future operating results of the Company. The data for the period from June 4, 1993 (date of inception) to December 31, 1993 and the years ended December 31, 1994 and 1995 has been derived from audited financial statements. The data for the three months ended March 31, 1995 and 1996 has been derived from unaudited financial statements.

	PERIOD FROM JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31, 1993	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
				(UNAUDITED)	
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)				
Revenues:					
Interest income-loans	$ 3	$2,289	$5,610	$1,107	$1,795
Interest and dividends-other investments	$ 13	$1,222	$ 325	$ 230	$ 54
Other income	$ --	$ 180	$ 295	$ 84	$ 57
Total revenues	$ 16	$3,691	$6,230	$1,421	$1,906
Expenses:					
Advisory and servicing fees, net	$ --(3)	$ 357	$ 946	$ 161	$ 276
Interest	$ --	$ 37	$ 221	$ 16	$ 252
Other	$ 1	$ 97	$ 167	$ 59	$ 34
Total expenses	$ 1	$ 491	$1,334	$ 236	$ 562
Net income	$ 15	$3,200	$4,896	$1,185	$1,344
Weighted average common shares outstanding	3,099,530	3,430,009	3,451,091	3,444,530	3,519,612
Net income per common share	$0.01	$ 0.93	$ 1.42	$ 0.34	$ 0.38
Dividends per common share	$ --(3)	$ 1.02	$ 1.38	$ 0.30	$ 0.37
Return on average assets(1)	--(3)	6.5%	8.8%	9.1%(5)	7.5%(4)(5)
Return on average common beneficiaries' equity(2)	--(3)	6.9%	10.2%	10.0%(5)	11.1%(5)

	AT END OF PERIOD			
	DECEMBER 31,			MARCH 31,
	1993	1994	1995	1996
		(IN THOUSANDS)		(UNAUDITED)
Loans receivable	$ 3,119	$32,694	$59,130	$62,958
Total assets	$43,153	$51,785	$59,797	$83,165
Notes payable	$ --	$ --	$ 7,920	$29,500
Beneficiaries' equity	$42,941	$47,440	$48,183	$49,001
Total liabilities and beneficiaries' equity	$43,153	$51,785	$59,797	$83,165

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(1) Based on the Average Annual Value of All Assets. See "Glossary."

(2) Based on the total beneficiaries' equity on the first day of the year and on the last day of each quarter of such year (i) divided by five for the years ended December 31, 1994 and 1995 and (ii) divided by two for the three months ended March 31, 1995 and 1996.

(3) Not applicable due to initial period of the Company's operations which commenced on December 28, 1993.

(4) The decrease was primarily caused by the private placement of the Notes on March 12, 1996.

(5) Percentage annualized.

THE OFFERING

Common Shares Offered to the Public.....	2,000,000 Common Shares
Direct Offering.....	60,000 Common Shares
Common Shares Outstanding After the Offering(1).....	5,639,346 Common Shares
Use of Proceeds.....	The net proceeds to the Company are estimated to be approximately $. Initially, substantially all of the net proceeds of the Offering will be invested in temporary investments of the types described under "Business -- Policies with Respect to Certain Activities." As rapidly as practicable thereafter, the net proceeds will be used to make additional loans in accordance with the Company's lending criteria.
AMEX Symbol.....	"PCC"

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(1) Excludes 13,990 shares issuable upon exercise of outstanding options under the Company's 1993 Employee Share Option Plan and 1993 Trust Manager Share Option Plan which are currently exercisable.

DIVIDENDS AND DISTRIBUTIONS POLICY

In accordance with applicable REIT requirements, the Company has to date made distributions in accordance with the Code. The Company paid dividends per share in the aggregate of $1.02, $1.38 and $0.37 for the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, respectively. See "Price Range of Common Shares." On May 23, 1996, the Company declared a quarterly dividend of $0.38 per Common Share payable on July 15, 1996 to holders of record as of June 28, 1996. Purchasers of Common Shares in the Offering will not be entitled to receive such dividend. The Company intends to continue to pay regular quarterly dividends to its shareholders. See "Dividends and Distributions Policy."

FEDERAL INCOME TAX CONSIDERATIONS

The Company has elected to be taxed as a REIT, commencing with its taxable year ended December 31, 1993. As a REIT, the Company generally is not subject to Federal income tax to the extent it distributes at least 95% of its REIT taxable income (which does not include capital gains) to its shareholders. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax on its taxable income at regular corporate rates. In addition, the Company would generally be disqualified from treatment as a REIT for the four subsequent taxable years. See "Federal Income Tax Considerations -- Requirements for Qualification as a Real Estate Investment Trust."

RISK FACTORS

An investment in the Company involves various investment risks. Prospective investors should carefully consider the following factors together with the information provided elsewhere in this Prospectus in evaluating an investment in the Company.

CONCENTRATION OF INVESTMENTS

At March 31, 1996, approximately 96% of the Company's outstanding loans were to small businesses in the lodging industry. There can be no assurance that the Company will continue to experience the positive results it has historically achieved from these lending activities or that market conditions will enable the Company to maintain or increase this level of loan concentration. Any economic factors that negatively impact this industry could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, at March 31, 1996 loans to businesses located in Texas and Maryland comprised 31% and 11%, respectively, of the Company's outstanding loan portfolio. An economic downturn in either of these states could have a material adverse effect on the Company's business, financial condition and results of operations.

As of March 31, 1996, Days Inn and Holiday Inn franchisees accounted for 20.3% and 18.5%, respectively, of the Company's outstanding loan portfolio. Any economic factors that negatively impact such franchisors could have a material adverse effect on the Company's business, financial condition and results of operations.

CREDIT RISKS OF LOANS

The Company's lending business is subject to various risks, including, but not limited to, the risk that borrowers will not satisfy their debt service obligations and the risk that the value of the collateral securing a loan, after payment and collection of foreclosure expenses, may be less than the principal amount of such loan. In addition, because the Company's borrowers are small businesses with more limited financial resources, smaller market shares, more restricted access to funding sources, higher leverage and greater dependence on the talents and efforts of one or a few people than larger, more established companies, the Company assumes a greater risk of loss than might otherwise be the case if it focused on lending to larger companies better able to withstand business and economic downturns. The Company attempts to reduce its risk of loss by evaluating each borrower's creditworthiness and the value of the collateral securing each loan; by limiting the maximum amount loaned to any single borrower; by taking security interests in assets, including real property and furniture, fixtures and equipment, of the borrower and, in certain cases, parties related to the borrower; and by obtaining personal guarantees. There can be no assurances, however, that such actions will be sufficient to avoid losses. With respect to business loans purchased, much of the information available to the Investment Manager about such loans is generated at the time that the loan was made by the original lending institution. This information may be largely out-of-date when the Investment Manager considers the loan for purchase, and the ability of the Investment Manager to obtain more current information may be limited. At March 31, 1996, the Company had no loan delinquency greater than 30 days, and based upon management's assessment of the likelihood of payment in full of the Company's outstanding loans, no loan loss reserve has been established. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may result in the establishment of significant loan loss reserves. In the event the Company experiences a loan loss, it could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Underwriting Criteria and Loan Originations" and "-- Delinquency and Collections."

RELIANCE ON MANAGEMENT AND INVESTMENT MANAGER

The Company is dependent for the selection, structuring, closing and monitoring of its investments upon the efforts and abilities of the officers of the Investment Manager, Dr. Fredric M. Rosemore, the Investment Manager's Chairman of the Board, Lance B. Rosemore, the Investment Manager's President and Chief Executive Officer, and Dr. Andrew S. Rosemore, the Investment Manager's Executive Vice President and

Chief Operating Officer. The loss or interruption of the services of these persons could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the directors and officers of the Investment Manager also serve as directors and officers of PMC Capital and its affiliates and devote such time as they deem appropriate to PMC Capital and such affiliates. Although ultimate control of the Company lies with the trust managers, the trust managers will rely primarily on the advice of the Investment Manager with respect to operating decisions. Accordingly, the success of the Company is dependent in large part on the services provided by the Investment Manager. The Investment Management Agreement can be terminated by the Investment Manager for any reason upon 60 days' prior written notice delivered to the Company, pursuant to a majority vote of the independent directors of the Investment Manager. Other than this notice requirement, there is no contractual impediment to the termination of the Investment Management Agreement by PMC Advisers. At March 31, 1996, the Company had approximately $35.7 million in loan commitments outstanding. In the event the Investment Management Agreement were terminated, a significant portion of the then outstanding commitments would no longer be required to be funded by the Company; however, such commitments will remain the obligations of PMC Advisers. Although management of the Company believes that the Company can obtain the services of third party investment advisors or hire sufficient personnel to internally manage the Company's investments in the event that the Investment Management Agreement is not renewed, no assurance can be given that the Company could obtain alternative investment management services on similar terms or that the same quality of portfolio could be maintained. The Company's inability to find an alternative investment manager on similar terms may adversely influence the decision of the Independent Trust Managers with respect to the renewal of the Investment Management Agreement. The Company does not maintain "key man" life insurance on any of its officers or the officers or employees of the Investment Manager. See "Management" and "Investment Manager."

COMPETITION

Many entities, including banks, financial institutions, insurance companies and other lending companies, including mortgage REITs, as well as individuals, compete for investments similar to those proposed to be made by the Company, some of whom have far greater resources than the Company. Competition has increased as the financial strength of the banking and thrift industries has improved. Increased competition makes it more difficult for the Company to originate loans on favorable terms or purchase loans at attractive prices. The principal competitive factors in the Company's business are the loan terms offered to borrowers and the quality of service provided to borrowers. In addition, PMC Capital may compete with the Company for certain loans; however, to the extent that investment opportunities reviewed by the Investment Manager conform to the investment criteria of the Company and the Company has funds available to make such investments, such investments may be made by the Company rather than PMC Capital. See "Conflicts of Interest; Transactions with Affiliates" and "Business -- Loan Originations and Underwriting," "-- Competition" and "-- Policies with Respect to Certain Activities."

CONFLICTS OF INTEREST; TRANSACTIONS WITH AFFILIATES

The officers of the Investment Manager are also officers of PMC Capital and in such capacities operate the business of PMC Capital and its subsidiaries. PMC Capital and its subsidiaries have originated and purchased business loans similar to the types of loans in which the Company invests and may do so in the future under certain limited circumstances. The Investment Manager could also establish or advise additional investment entities in the future for the purpose of investing in business loans.

Pursuant to a loan origination agreement among the Investment Manager, PMC Capital and the Company (the "Loan Origination Agreement"), loans which meet the Company's underwriting criteria are to be funded by the Company provided that funds are available. In such event, loans generally will not be made by PMC Capital other than: (i) loans in an original principal amount not exceeding $1,100,000 made pursuant to the SBA Section 7(a) or Small Business Investment Company ("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. Accordingly, potential conflicts between PMC Capital and the

Company with respect to loan origination opportunities will be resolved in accordance with the criteria set forth in the Loan Origination Agreement. See "Business -- Underwriting Criteria and Loan Originations." The participation by PMC Capital in the business loan market could make it more difficult for the Company to originate loans on favorable terms or purchase business loans at attractive prices which could have a material adverse effect on the Company's business, financial conditions and results of operations.

The fee of the Investment Manager is primarily based on the value of the Company's assets. As a result, any increases in the value of the Company's assets from leverage will benefit the Investment Manager and the Investment Manager will have a potential conflict in determining whether the Company should write-down the value of any assets. The Investment Manager has agreed to a reduced fee with respect to leveraged assets. In addition, the Annual Fee of the Investment Manager will be earned only to the extent that the Company's annual Return on Average Common Equity Capital, after deducting the Base Fee and the Annual Fee, is at least equal to the minimum return of 6.69%. Consequently, the Investment Manager could approve higher risk investments to maximize current income in order to exceed 6.69% which could result in increased risk of loss to the Company's assets. Because the maximum Annual Fee is 1% of the Average Annual Value of All Invested Assets and is payable regardless of the amount of distributions to shareholders as long as the minimum return of 6.69% is attained, there may be no direct correlation between payment of the Annual Fee and the amount of distributions to shareholders. See "Management" and "Investment Manager."

INTEREST RATE AND PREPAYMENT RISK

The ability of the Company to achieve certain of its investment objectives will depend in part on its ability to continue to borrow funds or issue preferred shares of beneficial interest ("Preferred Shares") on favorable terms, and there can be no assurance that such borrowings or issuances can in fact be achieved. The Company's net income is materially dependent upon the "spread" between the rate at which it borrows funds (typically either short-term at variable rates or long-term at fixed rates) and the rate at which it loans these funds (typically long-term at fixed rates). During periods of changing interest rates, interest rate mismatches could negatively impact the Company's net income and dividend yield and the market price of the Common Shares. If interest rates decline, the Company may experience significant prepayments, and such prepayments, as well as scheduled repayments, are likely to be reloaned at lower rates, which may have an adverse effect on the Company's business, financial condition and results of operations and on its ability to maintain distributions at the level then existing.

ADVERSE CONSEQUENCES OF FAILURE TO QUALIFY AS A REIT

The Company must meet a number of highly technical and complex requirements, described under "Federal Income Tax Considerations," to maintain its status as a REIT under the Code. Failure to qualify as a REIT would result in the taxation of the Company at corporate rates and loss of pass-through tax treatment which would have a significant adverse effect on the Company's business, financial condition and results of operations and on the return to shareholders. Failure to qualify as a REIT under the Code during a taxable year would generally render the Company ineligible to elect REIT status again until the fifth subsequent taxable year. The Company will not be required to make distributions to shareholders in the event that it fails to qualify as a REIT under the Code and there can be no assurance that the Company will continue to make distributions in such event. Transfers of the Common Shares are subject to certain restrictions to protect the Company's REIT status under the Code. See "Description of Shares of Beneficial Interest -- Restrictions on Transfer" and "Federal Income Tax Considerations." In addition, the Company may be subject to state or local taxes. No assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT, the Federal income tax consequences of such qualification or the application of state or local taxes to the Company. Under legislation which became effective in 1992, certain entities which employ leverage and whose assets consist principally of real estate mortgages may be classified as taxable mortgage pools. To date, the Internal Revenue Service has issued practically no guidance on the classification of REITs as taxable mortgage pools and it is unclear whether the Company would ever be classified as one. See "Federal Income Tax Considerations -- Other Taxation."

LEVERAGE

The Company has established a revolving credit facility, completed a private placement of the Notes through the Partnership and may issue Preferred Shares (although the Company has no current plans to do so) to acquire additional funds to continue its lending activities. To the extent that the Company utilizes its credit facility, executes notes or issues Preferred Shares, the Company is leveraged. Lenders and preferred beneficiaries will have fixed dollar claims on the Company's assets superior to the claims of the holders of Common Shares and may require that the Company agree to covenants that could restrict its flexibility in the future and may limit the Company's ability to pay dividends. The Company's net income is materially dependent upon the "spread" between the rate at which it borrows funds (typically either short-term at variable rates or long-term at fixed rates) and the rate at which it loans these funds (typically long-term at fixed rates). If the returns on loans originated by the Company with funds obtained from borrowings or the issuance of Preferred Shares fail to cover the cost of such funds, the Company's cash flow will be reduced and could be negative. Additionally, any increase in the interest rate earned by the Company on investments in excess of the interest rate or dividend rate incurred on the funds obtained from either borrowings or the issuance of Preferred Shares would cause its net income to increase more than it would without the leverage. Conversely, any decrease in the interest rate earned by the Company on investments would cause net income to decline by a greater amount than it would if the funds had not been obtained from either borrowings or the issuance of Preferred Shares and invested. Leverage is thus generally considered a speculative investment technique. In order for the Company to repay indebtedness or meet its obligations in respect of any outstanding Preferred Shares on a timely basis, the Company may be required to dispose of assets at a time at which it would not otherwise do so and at prices which may be below the net book value of the loan. Dispositions of assets may adversely affect the Company's business, financial condition and results of operations and the Company's ability to maintain its qualification as a REIT for Federal tax purposes. See "Business -- Policies with Respect to Certain Activities" and "Federal Income Tax Considerations."

REMEDIES UPON DEFAULT

In the event of a default on a business loan, the Company's available remedies would include legal action against the borrower or guarantor and foreclosure against the collateral securing the loan. The Company could experience significant delays in exercising its rights as a secured lender and might incur substantial costs in foreclosing on the mortgaged property and taking other steps to protect its investment. The Company's rights may, in some instances, be subordinate to mechanics' liens, materialmens' liens or government liens which could be significant in amount and which could, therefore, limit the amount recovered by the Company. In addition, the Company's ability to obtain payment from the borrower or guarantor to the extent of any deficiency resulting after the sale of collateral might be limited by bankruptcy or similar laws. Therefore, there can be no assurance that the Company would ultimately collect the full amount owed on a defaulted loan.

ENVIRONMENTAL LIABILITIES

The Company may in the future acquire through foreclosure properties that secured defaulted loans or make direct purchases of real estate. While the Company performs extensive due diligence investigations into properties both prior to originating loans secured by such properties and prior to foreclosing thereon, there is a risk that hazardous substances or wastes, contaminants, pollutants or sources thereof could be discovered on properties acquired by the Company or with respect to which the Company is deemed to be an owner or operator under applicable environmental laws. In such event, the Company could be required under certain environmental laws to remediate such conditions and clean up the affected property at its sole cost and expense or to contribute to the cost of such remediation or clean up, which could have a material adverse effect on the Company. In addition, the Company could be required to pay fines and/or penalties imposed by governmental agencies. The Company requires environmental site assessments of real estate securing loans it makes as a condition to making such loans; however, there can be no assurance that such assessments would reveal any or all potential environmental liabilities.

CERTAIN LEGAL CONSIDERATIONS

Applicable state laws generally regulate interest rates and other charges, require certain disclosures and require licensing of originators of loans. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of loans. Depending on the provisions of the applicable law and the specified facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the Company to collect all or part of the principal of or interest on its outstanding loans, could result in penalties to the Company and may entitle the borrower to a refund of amounts previously paid.

The Company's loans are also subject to Federal laws, including:

(i) the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit; and

(ii) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience.

Violations of certain provisions of these Federal laws may limit the ability of the Company to collect all or part of the principal of or interest on its loans and in addition could subject the Company to damages and administrative enforcement. The Company believes that it is in compliance with all applicable laws.

CHANGES IN INVESTMENT AND FINANCING POLICIES

The investment and financing policies of the Company and its policies with respect to certain other activities, including growth, capitalization, distributions, REIT status and operating policies, are established by the trust managers. See "Business -- Policies with Respect to Certain Activities." The trust managers may amend or revise these policies from time to time at their discretion without a vote of the shareholders of the Company.

OWNERSHIP LIMIT; ANTI-TAKEOVER EFFECT

In order to maintain its qualification as a REIT, not more than 50% in value of the outstanding shares of the Company may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). To ensure that the Company will not fail to qualify as a REIT under this test, the Declaration of Trust of the Company provides that no holder of capital shares, other than any trust manager, employee of the Company and any other person approved by the trust managers, may directly or indirectly own more than 9.8% of the lesser of the number or value of the outstanding capital shares; provided, however, in no event may the trust managers grant an exemption from the foregoing ownership limitation to any trust manager, employee or other person whose ownership, direct or indirect, of in excess of 9.8% of the lesser of the number or value of the outstanding capital shares would result in the termination of the Company's status as a REIT, which could have a material adverse effect on the Company's business, financial condition and its results of operations. There can be no assurance that there will not be five or fewer individuals who will own more than 50% in value of the shares thereby causing the Company to fail to qualify as a REIT. The ownership limits may discourage a change of control of the Company and may also (i) deter tender offers for the Common Shares, which offers may be attractive to the shareholders or (ii) limit the opportunity for shareholders to receive a premium for their Common Shares that might otherwise exist if an investor attempted to assemble a block of Common Shares in excess of 9.8% in number or value of the outstanding Common Shares or otherwise to effect a change of control of the Company. See "Description of Shares of Beneficial Interest -- Restrictions on Transfer."

RISK FOR IRAS OR INVESTORS SUBJECT TO ERISA

Fiduciaries of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), should consider whether the investment

of plan assets in the Common Shares satisfies the diversification requirements of ERISA, whether the investment is prudent in light of possible limitations on the marketability of the Common Shares, and whether such fiduciaries have authority to acquire such Common Shares under their appropriate governing instruments and Title I of ERISA. Also, fiduciaries of an individual retirement account ("IRA") should consider that an IRA may only make investments that are authorized by the appropriate governing instruments. See "ERISA Considerations."

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS INCLUDED IN THIS PROSPECTUS

This Prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, 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 the loan portfolio and availability of funds. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. 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 the control of the Company. Although the Company believes 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 Prospectus 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 the Company or any other person that the objectives and plans of the Company will be achieved.

THE COMPANY

The Company originates loans to small business enterprises which are primarily collateralized by first liens on real estate of the related business. The Company principally lends to small businesses in the lodging industry. The Company also targets the commercial real estate, service, retail and manufacturing industries. The Company has elected to be taxed as a REIT under the Code. The Company, a Texas real estate investment trust, was formed in June 1993 and completed its initial public offering in December 1993.

The Company lends primarily to borrowers involved in the lodging industry. The majority of the Company's loans in the lodging industry are to owner-operated facilities generally under national hotel or motel franchises. As of March 31, 1996, (i) 96% of the Company's loan portfolio consisted of loans for the acquisition, renovation and construction of hotels, and (ii) Days Inn and Holiday Inn franchisees accounted for 20.3% and 18.5%, respectively, of the Company's outstanding loan portfolio. Management believes that borrowers in the hotel and motel franchise industry are underserved by traditional lending sources. Based on statistics prepared by the SBA, SBA loans to the lodging industry had lower delinquencies and charge-offs as compared to the average of all SBA loans for the ten year period ended December 31, 1994. In addition, based on its lending history and the lending history of PMC Capital, the Company believes that loans to such lodging franchisees generally represent better credit risks than loans to other types of hotel and motel businesses because such businesses (i) employ proven business concepts, (ii) have consistent product quality, (iii) are screened and monitored by franchisors, and (iv) generally have a higher rate of success as compared to other independent lodging businesses.

From commencement of operations through March 31, 1996, the Company originated or purchased 76 loans in an aggregate principal amount funded of approximately $75 million. At March 31, 1996, all loans were paying as agreed, and the Company had experienced no loan losses and no charge-offs. There can be no assurance, however, that the Company will not experience loan losses and charge-offs in the future. The loan amounts generally do not exceed the lesser of 70% of the fair value or cost of the collateral.

The investments of the Company are managed by PMC Advisers, a wholly-owned subsidiary of PMC Capital. The Company is an affiliate of PMC Capital, which is a closed-end management investment company that operates as a business development company under the Investment Company Act of 1940, as amended. PMC Capital primarily engages in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. The predecessor to PMC Capital, Inc. was incorporated in 1979, and the common stock of PMC Capital, Inc. is currently traded on the American Stock Exchange.

The Company's principal business objective is to maximize shareholder returns by expanding its loan portfolio while adhering to its underwriting criteria. The Company currently has three principal strategies to achieve this objective. First, the Company expects to continue to benefit from the established customer base of PMC Capital due to the referral system available through PMC Advisers. Many of the Company's existing and potential borrowers have other projects that are currently financed by PMC Capital; however, their financing needs have grown over time and now exceed the limitations set for SBA approved loan programs. In addition, borrowers who have financial strength and stability in excess of the SBA loan program criteria represent continuing lending opportunities. Second, the Company is seeking to expand its relationships with national hotel and motel franchisors to secure a consistent flow of lending opportunities. For example, on April 12, 1996, the Company entered into a marketing agreement with USFS whereby USFS, through its wholly-owned subsidiary, Microtel, will present and market to prospective Microtel franchisees the Company's current financing programs. The third principal strategy of the Company is to continue to obtain cost-effective financing to maximize its growth. On March 12, 1996, the Company completed a private placement of $29,500,000 of Notes through the Partnership, a special purpose affiliate of the Company. The Company owns, directly or indirectly, all of the interests in the Partnership. In connection with the private placement, the Notes received a "AA" rating from Duff & Phelps Credit Rating Co.

The Company was organized as a Texas real estate investment trust in June 1993 and has elected to be taxed as a REIT under the Code. The Company's principal office is located at 17290 Preston Road, Third Floor, Dallas, Texas 75252 and its telephone number is (214) 380-0044.

USE OF PROCEEDS

Based upon an assumed offering price of $16.125 per share, the net proceeds to the Company from the Offering (after deducting estimated offering expenses) are estimated to be approximately $31.1 million ($35.7 million if the Underwriters' over-allotment option is exercised in full). Substantially all of the net proceeds of the Offering will initially be invested in interest bearing accounts and short-term interest bearing securities. As rapidly as practicable thereafter, the net proceeds of the Offering will be used to make loans in accordance with the Company's lending criteria.

PRICE RANGE OF COMMON SHARES

The Common Shares have been traded on the American Stock Exchange under the symbol "PCC" since February 1995 and before that on the Nasdaq National Market under the symbol "PMCTS" since December 17, 1993 (the date the Common Shares first began trading on Nasdaq National Market). As of May 31, 1996, there were 459 holders of record of Common Shares. The following table sets forth for the periods indicated the high and low sales prices as reported on the American Stock Exchange and the Nasdaq National Market and the dividends declared by the Company per share for each such period.

QUARTER ENDED	HIGH	LOW	REGULAR DIVIDENDS PER SHARE	SPECIAL DIVIDENDS PER SHARE
March 31, 1994	$15.25	$13.50	$ 0.240	--
June 30, 1994	$15.38	$13.25	$ 0.240	--
September 30, 1994	$15.00	$13.50	$ 0.240	--
December 31, 1994	$14.25	$11.25	$ 0.280	$0.02
March 31, 1995	$14.00	$11.75	$ 0.300	--
June 30, 1995	$15.13	$12.25	$ 0.315	--
September 30, 1995	$15.13	$13.75	$ 0.330	--
December 31, 1995	$17.13	$13.88	$ 0.355	$0.08
March 31, 1996	$17.88	$15.75	$ 0.370	--
June 30, 1996 (through June 7, 1996)	$17.38	$15.50	$ 0.380	--

DIVIDENDS AND DISTRIBUTIONS POLICY

GENERAL

The Company distributes to its shareholders substantially all of its net investment income and realized net capital gains, if any, as determined for income tax purposes. Dividends are paid by the Company at the discretion of the trust managers and depend on the actual cash flow of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code (see "Federal Income Tax Considerations") and such other factors as the trust managers may deem relevant. Applicable law may limit the amount of dividends and other distributions payable by the Company. At each meeting in any fiscal year for the purpose of declaring dividends, the trust managers declare a dividend of net investment income at a quarterly rate based on an estimate of the year's net investment income. A special dividend is also generally declared prior to the end of December, for distribution during the following January, to shareholders of record as of the last business day of the year, in at least the minimum amount required to comply with the Code's provisions regarding the distribution of the year's distributable net investment income and net realized capital gains.

Dividends are paid based on taxable income and, accordingly, may be greater or less than book income. If the Company is unable to distribute amounts sufficient to satisfy the requirements under the Code relating to its status as a REIT, the Company could incur liability for taxes and possibly lose its status as a REIT. See "Federal Income Tax Considerations." In the event that amounts distributed exceed the earnings and profits of the Company available for distribution, such excess will be considered a tax free return of capital to a shareholder to the extent of the shareholder's adjusted basis in his Common Shares and as capital gain to the extent the distributions exceed both available earnings and profits and stock basis.

On May 23, 1996, the Company declared a quarterly dividend of $0.38 per Common Share payable on July 15, 1996 to holders of record as of June 28, 1996. Purchasers of Common Shares in this Offering will not be entitled to receive such dividend. For information relating to the frequency and amounts of dividends paid on the Common Shares, see "Price Range of Common Shares."

DIVIDEND REINVESTMENT PLAN

Pursuant to the Company's Dividend Reinvestment Plan (the "Plan"), a shareholder whose Common Shares are registered in his own name may elect to have all distributions reinvested automatically in additional Common Shares by contacting the American Stock Transfer and Trust Company (the "Plan Agent"). The Company may place limitations on participation in the Plan to assure the maintenance of its REIT status. See "Federal Income Tax Considerations." Shareholders whose Common Shares are held in the name of a nominee may have distributions reinvested automatically by the nominee in additional Common Shares under the Plan, but only to the extent the nominee participates on his behalf. Shareholders whose Common Shares are held in the name of a nominee should contact the nominee for details. All distributions to investors who do not participate (or whose nominee does not participate) in the Plan will be paid by check mailed directly to the record holder by or under the direction of the Plan Agent.

The Plan Agent will promptly apply a Plan participant's dividends or distributions to the purchase of newly issued Common Shares from the Company. The purchase price of Common Shares purchased from the Company will be 98% of the average of the closing sales prices, as reported in The Wall Street Journal, at which Common Shares were traded on the last five days on which trading in the Common Shares is reported to have taken place on the American Stock Exchange prior to the payment date of the dividend or distribution. The number of Common Shares to be received by the Plan participants on account of the dividend or distribution will be calculated on the basis of the initially determined market price and will be credited to their accounts as of the payment date of the dividend or distribution.

The Plan Agent will maintain all shareholder accounts in the Plan and will furnish written confirmations of all transactions in the account, including information needed by shareholders for personal and tax records. Certificates for the shares will be retained by the Plan Agent and available upon 20 days' notice. Because of the length of such notice period, it may take longer for a shareholder to liquidate Common Shares held under

the Plan than Common Shares held outside the Plan. There will be no charge to participants for reinvesting dividends and capital gains distributions.

The Plan also permits participants to purchase Common Shares thereunder by making cash payments to the Plan Agent in amounts of not less than $50 or more than $10,000 per month. These optional cash payments will be applied to acquire Common Shares from the Company on the same terms as the reinvestment of dividends.

The automatic reinvestment of distributions will not relieve participants of any income tax which may be payable on distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Company reserves the right to amend or terminate the Plan on at least 90 days' written notice to participants in the Plan. The Company may also amend or terminate the Plan without notice if necessary to preserve the Company's REIT status.

The Company has reserved 400,000 Common Shares for issuance pursuant to the Plan. All Common Shares acquired under the Plan will be originally issued by the Company, and a written prospectus relating to such Common Shares may be obtained from the Company or the Plan Agent.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of March 31, 1996, and of the Company and its subsidiaries on a pro forma basis to give effect to the 2,060,000 Common Shares offered hereby. This table should be read in conjunction with the Financial Statements and the related notes thereto appearing elsewhere in this Prospectus.

	AS OF MARCH 31, 1996	
	ACTUAL	PRO FORMA
	(DOLLARS IN THOUSANDS) (UNAUDITED)	
Short-term debt	$ --	$ --
Long-term debt	$ --	$ --
Fixed rate loan backed notes	29,500	29,500
Beneficiaries' equity:		
Common Shares, $.01 par value; 100,000,000 shares authorized; 3,540,988 and 5,600,988(1) outstanding, respectively	35	56
Additional paid-in capital	49,110	80,179
Cumulative net income	9,456	9,456
Cumulative dividends	(9,600)	(9,600)
Total beneficiaries' equity	49,001	80,091
Total capitalization	$78,501	$ 109,591

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(1) Does not include up to 300,000 shares reserved for issuance upon exercise of the Underwriters' over-allotment option. See "Underwriting."

SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company as of and for the period from June 4, 1993 (date of inception) to December 31, 1993, for the years ended December 31, 1994 and December 31, 1995 and for the three months ended March 31, 1995 and March 31, 1996. The following data should be read in conjunction with the financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus. The selected financial data presented below for the period from June 4, 1993 (date of inception) to December 31, 1993 and the years ended December 31, 1994 and 1995 has been derived from the financial statements of the Company audited by Coopers & Lybrand L.L.P., independent public accountants, whose report with respect thereto is included elsewhere in this Prospectus. The selected financial data presented below for the three months ended March 31, 1995 and 1996 has been derived from unaudited financial statements.

	PERIOD FROM JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31, 1993	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
				(UNAUDITED)	
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)				
Revenues:					
Interest income-loans	$ 3	$2,289	$5,610	$1,107	$1,795
Interest and dividends -- other investments	$ 13	$1,222	$ 325	$ 230	$ 54
Other income	$ --	$ 180	$ 295	$ 84	$ 57
Total revenues	$ 16	$3,691	$6,230	$1,421	$1,906
Expenses:					
Advisory and servicing fees, net	$ --(3)	$ 357	$ 946	$ 161	$ 276
Interest	$ --	$ 37	$ 221	$ 16	$ 252
Other	$ 1	$ 97	$ 167	$ 59	$ 34
Total expenses	$ 1	$ 491	$1,334	$ 236	$ 562
Net income	$ 15	$3,200	$4,896	$1,185	$1,344
Weighted average common shares outstanding	3,099,530	3,430,009	3,451,091	3,444,530	3,519,612
Net income per common share	$0.01	$ 0.93	$ 1.42	$ 0.34	$ 0.38
Dividends per common share	$ --(3)	$ 1.02	$ 1.38	$ 0.30	$ 0.37
Return on average assets(1)	--(3)	6.5%	8.8%	9.1%(5)	7.5%(4)(5)
Return on average common beneficiaries' equity(2)	--(3)	6.9%	10.2%	10.0%(5)	11.1%(5)

	AT END OF PERIOD			
	DECEMBER 31,			MARCH 31,
	1993	1994	1995	1996
		(IN THOUSANDS)		(UNAUDITED)
Loans receivable	$ 3,119	$32,694	$59,130	$62,958
Total assets	$43,153	$51,785	$59,797	$83,165
Notes payable	$ --	$ --	$ 7,920	$29,500
Beneficiaries' equity	$42,941	$47,440	$48,183	$49,001
Total liabilities and beneficiaries' equity	$43,153	$51,785	$59,797	$83,165

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(1) Based on the Average Annual Value of All Assets. See "Glossary."

(2) Based on the total beneficiaries' equity on the first day of the year and on the last day of each quarter of such year (i) divided by five for the years ended December 31, 1994 and 1995 and (ii) divided by two for the three months ended March 31, 1995 and 1996.

(3) Not applicable due to initial period of the Company's operations which commenced on December 28, 1993.

(4) The decrease was primarily caused by the private placement of the Notes on March 12, 1996.

(5) Percentages annualized.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company was incorporated in June 1993 and had no operations prior to completion of its initial public offering (the "IPO") on December 28, 1993. Accordingly, there are no comparable 1993 results to the year ended December 31, 1994. The net proceeds to the Company from the IPO were $47,738,828, including the over-allotment option with respect thereto.

During the three months ended March 31, 1996, the Company originated and funded $4.8 million of loans, all to businesses operating in the lodging industry. During the year ended December 31, 1995, the Company originated and funded $31.7 million of loans, all to businesses operating in the lodging industry. During the year ended December 31, 1994, the Company originated and funded or purchased loans with a face value of $35.2 million. Of these loans, approximately $32.5 million, or 92%, were to corporations and individuals operating in the lodging industry. As of March 31, 1996, the total portfolio outstanding was $64.0 million ($62.9 million after reductions for loans purchased at a discount and deferred commitment fees) with a weighted average contractual interest rate of approximately 11.2%. The weighted average contractual interest rate does not include the effects of the amortization of discount on purchased loans or commitment fees on funded loans. Loans are collateralized primarily by first liens on real estate acquired and are guaranteed, for all but one loan, by the principals of the businesses financed. Included in the funded loans are $1.8 million which have been advanced pursuant to the SBA 504 program. See "Business -- SBA Section 504 Program." Interest rates charged on such advances are comparable to those which are customarily charged by the Company.

CERTAIN ACCOUNTING CONSIDERATIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company follows the accounting practices prescribed by the American Institute of Certified Public Accountants-Accounting Standards Division in Statement of Position 75-2 "Accounting Practices of Real Estate Investment Trusts" ("SOP 75-2"). In accordance with SOP 75-2, a loan loss reserve is established based on a determination, through an evaluation of the recoverability of individual loans, by the Board of Trust Managers when significant doubt exists as to the ultimate realization of the loan. To date, no loan loss reserves have been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgment and considers the facts and circumstances existing on the evaluation date. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may result in the establishment of significant loan loss reserves. At such time as a determination is made that there exists significant doubt as to the ultimate realization of a loan, the effect on operating results may be material.

RESULTS OF OPERATIONS

Three Months Ended March 31, 1995 Compared to the Three Months Ended March 31, 1996

The net income of the Company for the three months ended March 31, 1995 and 1996 was $1.185 million and $1.344 million, or $0.34 and $0.38 per share, respectively.

Interest income -- loans increased by $689,000, or 62%, from $1.107 million for the three months ended March 31, 1995 to $1.796 million for the three months ended March 31, 1996. This increase was primarily attributable to: (i) the reallocation of the Company's initial investment of the proceeds of the IPO in cash equivalents and U.S. Government securities to higher-yielding loans to small businesses, and (ii) portfolio

growth from the proceeds of borrowing arrangements. The average invested assets in loans to small businesses increased by $24.8 million, or 69%, from $36.2 million during the three months ended March 31, 1995, to $61.0 million during the three months ended March 31, 1996. The annualized average yields on loans for the three months ended March 31, 1996 and 1995 were approximately 12.1% and 13.1%, respectively. Interest income -- loans includes interest earned on loans, the accretion of discount on purchased loans (approximately $7,000 and $6,000 during the three months ended March 31, 1996 and 1995, respectively) and the accretion of deferred commitment fees (approximately $51,000 and $56,000 during the three months ended March 31, 1996 and 1995, respectively).

Interest and dividends -- other investments decreased by $177,000, or 77%, from $231,000 during the three months ended March 31, 1995 to $54,000 during the three months ended March 31, 1996. This decrease was due to the reduction in funds available for short-term investments as the Company continued to invest proceeds from the IPO. The proceeds from the IPO were initially invested in government securities and money market funds until small business loans were identified and funded. The average outstanding short-term investments of the Company decreased by $6.8 million, 44%, from $15.3 million during the three months ended March 31, 1995 to $8.5 million during the three months ended March 31, 1996. The Company had no material short-term investments outstanding during the quarter ended March 31, 1996 until the completion of the structured financing in mid-March (see Note 10 to the consolidated financial statements). The average yields on short-term investments during the three months ended March 31, 1996 and 1995 were approximately 5.6% and 5.8%, respectively.

Other income decreased by $27,000, or 32%, from $84,000 during the three months ended March 31, 1995 to $57,000 during the three months ended March 31, 1996. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment penalties, (iii) late fees and other loan fees, and (iv) other miscellaneous collections. The decrease was primarily due to the prepayment fees collected on a loan during the three months ended March 31, 1995 of $51,000. The decrease was offset by income recognized from the monitoring of construction hotel/motel projects in process which increased by $7,000 from $32,000 during the three months ended March 31, 1995 to $39,000 during the three months ended March 31, 1996.

Expenses consisted primarily of the servicing and advisory fees paid to the Investment Manager. For additional discussion relating to the components of the servicing and advisory fees, see "Investment Manager -- Investment Management Agreement." The operating expenses borne by the Investment Manager include any compensation to the Company's officers (other than stock options) and the cost of office space, equipment and other personnel required for the Company's day-to-day operations. The expenses paid by the Company include transaction costs incident to the acquisition and disposition of investments, regular legal and auditing fees and expenses, the fees and expenses of the Company's Independent Trust Managers, the costs of printing and mailing proxies and reports to shareholders and the fees and expenses of the Company's custodian and transfer agent, if any. The Company, rather than the Investment Manager, will also be required to pay expenses associated with any litigation and other extraordinary or nonrecurring expenses. Pursuant to the Investment Management Agreement, the Company incurred an aggregate of $356,000 in management fees for the three months ended March 31, 1996. Of the total management fees paid or payable to the Investment Manager during the three months ended March 31, 1996, $80,000 has been netted against commitment fees as a direct cost of originating loans. Investment management fees were $240,000 for the three months ended March 31, 1995. Of the total management fees paid or payable to the Investment Manager during the three months ended March 31, 1995, $80,000 was netted against commitment fees as a direct cost of originating loans. The increase in investment management fees of $116,000 (prior to netting direct costs of originating loans), or 48%, is primarily due to the average outstanding invested assets increasing from $35.2 million during the three months ended March 31, 1995 to $60.6 million during the three months ended March 31, 1996 (a $25.4 million increase, or 72%) and average total assets increasing from $51.4 million during the three months ended March 31, 1995 to $66.2 million during the three months ended March 31, 1996 (a $15.0 million increase, or 29%).

Legal and accounting fees decreased by $17,000, or 65%, from $26,000 during the three months ended March 31, 1995, to $9,000 during the three months ended March 31, 1996. This decrease is attributable to billing of accounting and corporate legal fees during the three months ended March 31, 1995.

General and administrative expenses decreased by $8,000, or 24%, from $33,000 during the three months ended March 31, 1995 to $25,000 during the three months ended March 31, 1996. This decrease is primarily attributable to the cost of printing and mailing the Company's dividend reinvestment plan and the cost of listing of the Company's common shares of beneficial interest on the American Stock Exchange during the three months ended March 31, 1995.

Interest expense of $252,000 relates to interest and non-utilization charges on the Company's revolving credit facility (approximately $136,000), interest on the structured financing (approximately $105,000) and interest incurred on borrower advances (approximately $11,000) during the three months ended March 31, 1996. The obligation to pay interest on borrower advances is included in borrower advances on the accompanying balance sheet. The Company did not have any outstanding borrowings during the three months ended March 31, 1995. Interest on borrower advances was $16,000 during the three months ended March 31, 1995.

Year Ended December 31, 1994 Compared to the Year Ended December 31, 1995

The net income of the Company for the years ended December 31, 1994 and 1995 was $3.2 million and $4.9 million, or $0.93 per share and $1.42 per share, respectively.

Interest income -- loans increased by $3.3 million, or 143%, from $2.3 million for the year ended December 31, 1994 to $5.6 million for the year ended December 31, 1995. This increase was primarily attributable to the reallocation of the Company's initial investment of the proceeds of the IPO from cash and U.S. Government securities to higher-yielding loans to small businesses. The average invested assets increased by $27.9 million, or 148%, from $18.9 million during the year ended December 31, 1994 to $46.8 million during the year ended December 31, 1995. The average yields on loans for the years ended December 31, 1995 and 1994 were approximately 12.1% and 13.2%, respectively. Interest income -- loans includes interest earned on loans, the accretion of discount on purchased loans (approximately $26,000 and $22,000 during the years ended December 31, 1995 and 1994, respectively) and the accretion of deferred commitment fees (approximately $197,000 and $166,000 during the years ended December 31, 1995 and 1994, respectively).

Interest and dividends -- other investments decreased by $875,000, or 73%, from $1.2 million during the year ended December 31, 1994 to $325,000 during the year ended December 31, 1995. This decrease was due to the reduction in funds available for short-term investments as the Company began making loans from the proceeds of the IPO. The proceeds from the IPO were initially invested in government securities and money market funds until Primary Investments were identified and funded. The average short-term investments of the Company decreased by $25.2 million, or 81%, from $31.2 million during the year ended December 31, 1994 to $6.0 million during the year ended December 31, 1995. The average yields on short-term investments during the years ended December 31, 1995 and 1994 were approximately 5.5% and 3.9%, respectively.

Other income increased by $115,000, or 64%, from $180,000 during the year ended December 31, 1994 to $295,000 during the year ended December 31, 1995. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment penalties, (iii) late fees and other loan fees, and (iv) other miscellaneous collections. The increase was primarily due to construction hotel/motel projects in process increasing causing an increase of $111,000 in construction monitoring fees recognized as income from $35,000 during the year ended December 31, 1994 to $146,000 during the year ended December 31, 1995.

Expenses consisted primarily of the servicing and advisory fees paid to PMC Advisers. For additional discussion relating to the components of the servicing and advisory fees, see "Investment Manager -- Investment Management Agreement." The operating expenses borne by the Investment Manager, none of which is allocated to the Company, include any compensation to the Company's officers (other than stock options) and the cost of office space, equipment and other personnel required for the Company's day-to-day operations. The expenses paid by the Company include transaction costs incident to the acquisition and disposition of investments, regular legal and auditing fees and expenses, the fees and expenses of the Company's Independent Trust Managers, the costs of printing and mailing proxies and reports to shareholders and the fees and expenses of the Company's custodian and transfer agent, if any. The Company, rather than the Investment Manager, will also be required to pay expenses associated with any litigation and other

extraordinary or nonrecurring expenses. Pursuant to the Investment Management Agreement, the Company incurred an aggregate of $1,189,000 in management fees for the year ended December 31, 1995. Of the total management fees paid or payable to the Investment Manager during the year ended December 31, 1995, $244,000 has been netted against commitment fees as a direct cost of originating loans. Investment management fees were $429,000 for the year ended December 31, 1994. No advisory fees for the six month period ended June 30, 1994 were due to the Investment Manager. Of the advisory and servicing fees paid or payable to the Investment Manager during the year ended December 31, 1994, $71,500 was netted against commitment fees as a direct cost of originating loans. The increase in investment management fees of $760,000 (prior to netting direct costs of originating loans), or 177%, is primarily due to the increase in the average invested assets increasing from $18.9 million to $46.8 million and average total assets increasing from $49.0 million to $53.9 million.

Legal and accounting fees increased by $38,000, or 115%, from $33,000 during the year ended December 31, 1994 to $71,000 during the year ended December 31, 1995. This increase is attributable to higher accounting expenses and corporate legal fees attributed to the increased corporate activity.

General and administrative expenses increased by $32,000, or 50%, from $64,000 during the year ended December 31, 1994 to $96,000 during the year ended December 31, 1995. This increase is primarily attributable to (i) shareholder servicing fees incurred during the year ended December 31, 1995 for dividend payments, (ii) the cost of printing and mailing the Company's dividend reinvestment plan and annual reports, and (iii) the cost of listing the Common Shares on the American Stock Exchange.

Interest expense of $222,000 relates to interest and non-utilization charges on the revolving credit facility (approximately $171,000) and interest incurred on borrower advances (approximately $51,000) during the year ended December 31, 1995. The interest payable at December 31, 1995, of $56,267 pertained to interest incurred on the outstanding balance of the revolving credit facility. The obligation to pay interest on borrower advances is included in borrower advances on the accompanying balance sheet.

As the Company is currently qualified as a REIT under the applicable provisions of the Code, there are no provisions in the financial statements for Federal income taxes.

CASH FLOW ANALYSIS

The Company generated $3.8 million and $6.6 million from operating activities during the years ended December 31, 1995 and 1994, respectively. The decrease of $2.8 million, or 42%, was primarily due to fluctuations in borrowers advances (decreased $4.1 million from a source of $2.3 in 1994 to a use of $1.8 million in 1995). During 1994, as many construction projects were in the initial stages, the borrowers were required to submit their required advances. Since 1994 was the first full year of operations, there was no reimbursement activity for prior years advances and consequently 1994 had a significant positive cash flow from borrower advances. During 1995, many of the construction projects were significantly completed, with the result being a net reduction in outstanding borrower advances at December 31, 1995. See "Business -- Borrower Advances." Net income increased $1.7 million, or 53%, from $3.2 million during the year ended December 31, 1994 to $4.9 million during the year ended December 31, 1995. Cash used for advances to affiliates increased by $500,000, from $160,000 at December 31, 1994 to $660,000 at December 31, 1995. The increase was a result of the annual fee payable pursuant to the Investment Management Agreement increasing in 1995 due to the larger base of invested assets and achieving the target to earn the full incentive fee, with such fee payable in 1996.

The Company used $26.7 million and $25.1 million through investing activities during the years ended December 31, 1995 and 1994, respectively. As lending is the Company's primary source of business, loans funded/purchased is the main reason for these uses. Loans funded/purchased were $31.7 million during the year ended December 31, 1995 as compared to $35.0 million for the year ended December 31, 1994, a 9% decrease. This decrease was due to the amount of construction projects in process during 1995, whereas these projects utilize the Company's funds available for commitment, the actual funding process occurs over a period of time. During 1994, most of the amounts loaned related to the acquisition or refinance of lodging properties.

The Company generated $4.3 million and $2.3 million from financing activities during the years ended December 31, 1995 and 1994, respectively. During 1994, the main source of funds was $5.2 million received from the exercise of the over-allotment option in connection with the IPO. During 1995, the main source of funds was $7.9 million of net proceeds from advances under the Company's revolving credit facility. The Company's main use of funds from financing activities is the payment of dividends as a part of its requirements to maintain REIT status. Dividends paid increased from $2.5 million during the year ended December 31, 1994 to $4.3 million during the year ended December 31, 1995. This increase of $1.8 million corresponds to the Company's increase in net income.

LIQUIDITY AND CAPITAL RESOURCES

The primary use of the Company's funds is to originate loans and, from time to time, to acquire loans from certain governmental agencies and/or their agents. The Company also uses funds for payment of dividends to shareholders, management and advisory fees (in lieu of salaries and other administrative overhead), general corporate overhead and interest and principal payments on borrowed funds.

At March 31, 1996, the Company had approximately $17.0 million of cash and cash equivalents and approximately $35.7 million in outstanding commitments to originate loans. Such commitments were made in the ordinary course of the Company's business. These commitments to extend credit are conditioned upon compliance with the terms of the commitment letter. Commitments have fixed expiration dates and require payment of a fee. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements. In general, to meet its liquidity requirements, including expansion of its outstanding loan portfolio, the Company intends to use: (i) its short-term revolving credit facility described below, (ii) placement of long-term borrowings, (iii) issuance of debt securities, and/or (iv) offering of additional equity securities, including the Offering. Pursuant to the Investment Management Agreement, if the Company does not have available capital to fund outstanding commitments, the Investment Manager will refer such commitments to affiliates of the Company. The ability of the Company to meet its liquidity needs will depend on its ability to borrow funds or issue equity securities on favorable terms.

By December 31, 1995, the Company had fully utilized the proceeds from the IPO. During 1995, the Company completed an arrangement for a revolving credit facility providing the Company with funds to originate loans collateralized by commercial real estate. This credit facility provides the Company up to the lesser of $20 million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings. At March 31, 1996, the Company had no outstanding borrowings under the credit facility and $20 million available thereunder. The Company is charged interest on the balance outstanding under the credit facility at the Company's election of either the prime rate of the lender less 50 basis points or 200 basis points over the 30, 60 or 90 day LIBOR. Additional funds will be available to the Company from the proceeds of the dividend reinvestment plan or SBA 504 loan takeouts. Management anticipates these sources of funds will be adequate to meet its existing obligations.

On March 12, 1996, a special purpose affiliate of the Company, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership (the "Partnership"), completed a private placement (the "Private Placement") of $29,500,000 of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Company owns, directly or indirectly, all of the partnership interests of the Partnership. The Notes, which were issued at par, mature in 2016 and bear interest at the rate of 6.72% per annum and are secured by approximately $39.7 million of loans contributed by the Company to the Partnership, of which the Company owns a 99% limited partnership interest. The loans were originated or purchased by the Company in accordance with the Company's lending strategy and underwriting criteria. The Partnership has the exclusive obligation for the repayment of the Notes, and the holders of the Notes have no recourse to the Company or its assets in the event of nonpayment, other than the mortgage loans securing the Notes. The net proceeds from this issuance of the Notes (approximately $27.1 million after giving effect to issuance costs of $500,000 and the establishment of a $1.9 million deposit held by the trustee as collateral) were distributed to the Company in accordance with its partnership interest in the Partnership. The Company used approximately $10.3 million of such proceeds to pay down outstanding borrowings under the Company's credit facility and

intends to make additional loans in accordance with its lending criteria with the remaining proceeds. In connection with the Private Placement, the Notes received a "AA" rating from Duff & Phelps Credit Rating Co.

In general, if the returns on loans originated by the Company with funds obtained from any borrowing or the issuance of any Preferred Shares fail to cover the cost of such funds, the net cash flow on such loans will be negative. Additionally, any increase in the interest rate earned by the Company on investments in excess of the interest rate or dividend rate incurred on the funds obtained from either borrowings or the issuance of Preferred Shares would cause its net income to increase more than it would without the leverage. Conversely, any decrease in the interest rate earned by the Company on investments would cause net income to decline by a greater amount than it would if the funds had not been obtained from either borrowings or the issuance of Preferred Shares. Leverage is thus generally considered a speculative investment technique. See "Risk Factors -- Leverage."

Loan demand has remained high for the types of loans originated by the Company (see "Business -- Loan Commitments"). The Private Placement may not provide the Company with sufficient capital to expand the outstanding portfolio at historical levels. Accordingly, during the year ending December 31, 1996, the Company may seek additional sources for financing, including the Offering. There can be no assurance that the Company will be able to raise funds through these financing sources. If these sources are not available, the Company will have to fully utilize its $20 million revolving credit facility and may have to slow the rate of increasing the outstanding loan portfolio.

RECENT ACCOUNTING PRONOUNCEMENTS

In 1992, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," to require disclosure in the body of the financial statements or the accompanying notes regarding the fair value of financial instruments for which it is practicable to estimate that value and the methods and significant assumptions used. The effective date is for financial statements issued in fiscal years ending after December 15, 1995. The Company has incorporated the requirements of SFAS No. 107 in the accompanying financial statements.

In 1993, FASB issued SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118 "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." These pronouncements are effective for fiscal years beginning after December 15, 1994. These statements provide income recognition criteria for loans and generally require creditors to value certain impaired and restructured loans at the present value of the expected future cash flows, discounted at the loan's effective interest rate, or at fair value of the collateral if the loan is collateral dependent.

The implementation of SFAS No. 114 and SFAS No. 118 did not have an effect on the Company's financial statements.

In 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." Pursuant to SFAS No. 123, a company may elect to continue expense recognition under Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employee" (APB No. 25) or to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on fair value methodology outlined in SFAS No. 123. SFAS No. 123 further specifies that companies electing to continue expense recognition under APB No. 25 are required to disclose pro forma net income and pro forma earnings per share as if the fair value based accounting prescribed by SFAS No. 123 has been applied. The Company has elected to continue expense recognition pursuant to APB No. 25. SFAS No. 123 is effective for fiscal years beginning after December 15, 1995.

BUSINESS

GENERAL

The Company is a commercial lender that originates loans to small business enterprises which are primarily collateralized by first liens on real estate. The Company principally lends to small businesses in the lodging industry and also targets the commercial real estate, service, retail and manufacturing industries. The Company was formed in June 1993 as a REIT pursuant to the Texas Real Estate Investment Trust Act (the "Texas REIT Act"). The Company's investments are managed pursuant to the Investment Management Agreement with PMC Advisers, a wholly-owned subsidiary of PMC Capital and an affiliate of the Company.

Although the Company, PMC Advisers and PMC Capital are separate entities, the management team of all three entities is the same, which provides significant underwriting benefits to the Company. The loans funded by the Company have many of the same characteristics as the loans typically originated by PMC Capital and the underwriting criteria for such loans is similar to the underwriting criteria typically required by PMC Capital (other than with respect to loan amounts and SBA eligibility requirements). Consequently, the Company believes that the experience of the officers of PMC Advisers in originating loans for PMC Capital benefits the Company.

The Company also expects to continue to benefit from the established customer base of PMC Capital, particularly those customers with a strong credit profile. The Company benefits from the in-house referral system which is presently in place at PMC Capital utilizing the existing marketing efforts available through PMC Advisers. Many of the Company's existing and potential borrowers have other projects that are currently financed by PMC Capital. These borrowers' financing needs have grown over time and now exceed the limitations set for SBA approved loan programs. These borrowers generally have greater financial strength and stability than those targeted for SBA loan programs.

BUSINESS STRATEGY

The Company's principal business objective is to maximize shareholder returns by expanding its loan portfolio while adhering to its underwriting criteria. The Company currently has three principal strategies to achieve this objective. First, the Company expects to continue to benefit from the established customer base of PMC Capital due to the referral system available through PMC Advisers. Many of the Company's existing and potential borrowers have other projects that are currently financed by PMC Capital; however, their borrowers' financing needs have grown over time and now exceed the limitations set for SBA approved loan programs. These borrowers generally have financial strength and stability in excess of the SBA loan program criteria and represent continuing lending opportunities. See "-- SBA Regulations." Second, the Company is seeking to expand its relationship with national hotel and motel franchisors to secure a consistent flow of lending opportunities for the Company. For example, on April 12, 1996, the Company entered into a marketing agreement with USFS whereby USFS, through its wholly-owned subsidiary, Microtel, will present and market to prospective Microtel franchisees the Company's current financing programs. All fees payable to USFS pursuant to the marketing agreement will be paid by the Investment Manager, and the Company will have no obligation with respect thereto. The third principal strategy of the Company is to continue to obtain cost-effective financing to maximize its growth. On March 12, 1996, the Company completed a private placement of $29,500,000 of Notes through the Partnership, a special purpose affiliate of the Company. The Company owns, directly or indirectly, all of the interests in the Partnership. In connection with the private placement, the Notes received a "AA" rating from Duff & Phelps Credit Rating Co.

UNDERWRITING CRITERIA AND LOAN ORIGINATIONS

Underwriting Criteria. The Company primarily originates loans to small businesses that (i) exceed the net worth, asset, income, number of employees or other limitations applicable to the SBA programs utilized by PMC Capital, (ii) require funds in excess of $1.1 million without regard to SBA eligibility requirements, or (iii) require funds which PMC Capital does not have available and which otherwise meet the Company's underwriting criteria. Such loans ("Primary Investments") are primarily collateralized by first liens on real

estate of the related business, personally guaranteed by the principals of the entities obligated on the loans and are subject to the Company's underwriting criteria.

The underwriting criteria applied by the Company to evaluate prospective borrowers generally requires such borrowers to (i) provide first-lien real estate mortgages not exceeding 70% of the lesser of appraised value or cost, (ii) provide proven management capabilities, (iii) meet certain criteria with respect to historical or projected debt coverage, and (iv) have principals with satisfactory credit histories and provide personal guarantees, as applicable.

Pursuant to management's policies, at least 75% of the Company's assets must be utilized to fund the Primary Investments. Through March 31, 1996, the Company had utilized 98% of its invested assets to fund the Primary Investments. In addition, the Company may utilize a maximum of 25% of its assets to (i) purchase from certain governmental agencies and other sellers, loans on which payments are current at the time of the Company's commitment to purchase such loans and which meet the Company's underwriting criteria, (ii) invest in other commercial loans secured by real estate, and (iii) invest in real estate, provided such investments do not affect the ability of the Company to maintain its qualification as a REIT under the Code. Management of the Company has broad discretion in evaluating and pursuing investment opportunities.

Loan Originations. As of March 31, 1996, 96% of the Primary Investments have been to small business owners in the lodging industry. In addition, the Company may lend to small business owners in the commercial real estate, service, retail and manufacturing industries. The Company operates from the existing offices of the Investment Manager in Texas, Florida and Georgia and management anticipates that the Company will conduct operations from any future office of the Investment Manager. The Investment Manager receives loan referrals from PMC Capital and solicits loan applications on behalf of the Company from borrowers through personal contacts, attendance at trade shows, meetings and correspondence with local chambers of commerce, direct mailings, advertisements in trade publications and other marketing methods. The Company is not responsible for any compensation to PMC Capital for referrals. In addition, the Company receives a significant percentage of loans generated through referrals from lawyers, accountants, real estate brokers, loan brokers and existing borrowers. In some instances, the Company 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 loan. Through March 31, 1996, the Company had not made or committed to any such payment.

The Investment Manager, PMC Capital and the Company have entered into the Loan Origination Agreement to address conflicts of interest regarding the loan origination function. The Loan Origination Agreement generally requires that loans which meet the Company's underwriting criteria be funded by the Company provided that funds are available. In such event, loans generally will not be made by PMC Capital other than: (i) loans in an original principal amount not exceeding $1.1 million which qualify for the SBA Section 7(a) or SBIC loan programs utilized by its subsidiaries and (ii) bridge loans to be refinanced by SBA Section 7(a) upon approval of the SBA loan application. Generally, the Company originates loans to borrowers who exceed one or more of the limitations applicable to the SBA Section 7(a) and SBIC loan programs utilized by PMC Capital's subsidiaries. See "-- SBA Regulations." The Company will not originate loans in principal amounts less than $1.1 million which qualify for SBA Section 7(a) or SBIC loan programs unless PMC Capital is unable to originate such loans because of insufficient available capital.

All prospective Primary Investments are considered by the Investment Manager for investment by the Company. In the event that the Company does not have funds available, origination opportunities presented to the Company may be originated by PMC Capital or its subsidiaries.

Upon receipt of a completed loan application, the Investment Manager's credit department (which is also the credit department of PMC Capital) conducts an analysis of the loan which may include either a third-party appraisal or valuation by the Investment Manager of the property collateralizing the loan to assure compliance with loan-to-value ratios, a site inspection generally by a member of senior management of the Investment Manager, a review of the borrower's business experience and credit history and an analysis of debt service coverage and debt-to-equity ratios.

The Investment Manager's loan committee (which is also the loan committee of PMC Capital), which is comprised of members of the Company's senior management, makes a determination with respect to each loan application. The Investment Manager's loan committee generally meets on a daily basis and either approves the loan application as submitted, approves the loan application subject to additional conditions or rejects the loan application. After a loan is approved, the credit department will prepare and submit to the borrower a good faith estimate and cost sheet detailing the anticipated costs of the financing. The closing department reviews the loan file and assigns the loan to the Company's counsel, the fees of whom are paid by the borrower. Prior to any funding of a loan, the closing department is provided with the loan documentation from the closing attorney which is reviewed prior to authorizing disbursement.

After a loan is closed, the Investment Manager's servicing department (which is also the servicing department of PMC Capital) is responsible on an ongoing basis for: (i) obtaining all financial information required by the loan documents, (ii) verifying that adequate insurance remains in effect, (iii) refiling Uniform Commercial Code financing statements evidencing the loan, if required, (iv) collecting and applying loan payments, and (v) monitoring delinquent accounts.

LOAN PORTFOLIO CHARACTERISTICS

As a result of the application of the Company's underwriting criteria, the Company's loan portfolio has the following characteristics:

(i) All loans used by borrowers to acquire real estate and/or construct improvements thereon (the "Real Estate Loans") are secured by first liens on business real property. Each of the related loans used to acquire furniture, fixtures and equipment for certain of such real estate (the "FFE Loans") is secured by a first lien on the furniture, fixtures and equipment acquired with the proceeds of such loan and by a second lien on the real property of the borrower under the related Real Estate Loans. Other additional properties of certain borrowers or guarantors have been used as additional collateral in some instances.

(ii) All originated loans are guaranteed by the principal(s) of the borrowers.

(iii) The loan amounts of Real Estate Loans (together with related FFE Loans) are generally equal to or less than 70% of the fair value or cost of the primary collateral. When necessary, credit enhancements, such as additional collateral, are obtained to assure a maximum of 70% loan to value ratio.

The Company's loan portfolio also has the following characteristics:

a. At March 31, 1996, the Company had 66 loans outstanding with an aggregate principal amount outstanding of $64,048,000.

b. At March 31, 1996, all loans were paying as agreed, and none of the loans was 30 days or more delinquent.

c. Borrowers are principally involved in the lodging industry (96% as of March 31, 1996). The remainder of the loan portfolio is comprised of two loans in the commercial office rental market.

d. The Company has not loaned more than 10% of its assets to any single borrower.

e. At March 31, 1996, the outstanding principal amounts of the Real Estate Loans ranged from approximately $300,000 to $2.5 million and the outstanding principal amounts of FFE Loans ranged from approximately $57,000 to $312,000.

f. All originated loans provide for interest payments at fixed rates.

g. All originated loans, other than loans made under the SBA Section 504 program (the "Program"), have original maturities ranging from five to 20 years which may be extended, subject to certain conditions, by mutual agreement of the Company and the borrower until the loan is fully amortized if the original maturity date of the loan is prior to the stated maturity.

h. Originated loans, other than Program loans, provide for scheduled amortization (ranging from six to 20 years). Substantially all Real Estate Loans have balloon payment requirements (which may be extended at maturity, subject to certain conditions, by mutual agreement of the Company and the Borrower) and entitle borrowers to prepay all or part of the principal amount, subject to a prepayment penalty.

i. At March 31, 1996, the weighted average maturity for the Company's portfolio of loans was approximately six years.

LOAN PORTFOLIO

From June 4, 1993 (date of inception) through March 31, 1996, the Company originated or purchased 76 loans in an aggregate principal amount of approximately $75 million. The weighted average interest rate for the Company's portfolio of loans outstanding as of March 31, 1996 was 11.2%.

All loans are paying as agreed. From inception through March 31, 1996, the Company experienced no loan losses and no charge-offs.

All loans originated by the Company provide for fixed interest rates. The weighted average interest rate for loans funded in the period from commencement of operations (December 28, 1993) to December 31, 1993, the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996 were 11.50%, 11.05%, 11.42% and 11.02%, respectively. The following table sets forth the interest rates charged under the Company's portfolio for the loans originated for the period from inception to December 31, 1993 and the years ended December 31, 1994 and December 31, 1995 and the three months ended March 31, 1996:

INTEREST RATES AND PRINCIPAL AMOUNTS OF LOANS ORIGINATED

(IN THOUSANDS)

	INTEREST RATES					
PERIOD ORIGINATED	10.00-10.49%	10.50-10.99%	11.00-11.49%	11.50-11.99%	12.00-12.25%	TOTAL
Inception to December 31, 1993(1)	$ --	$ --	$ --	$ 3,216	$ --	$ 3,216
Year ended December 31, 1994	--	19,181	4,263	10,083	131	33,658
Year ended December 31, 1995	--	3,562	8,469	19,459	221	31,711
Three months ended March 31, 1996	1,700	216	702	2,212	--	4,830
Total	$1,700	$ 22,959	$ 13,434	$ 34,970	$352	$73,415
Percentage of Portfolio	2.3%	31.3%	18.3%	47.6%	0.5%	100.00%

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(1) The Company commenced operations on December 28, 1993.

All loans originated by the Company (other than Program loans) are guaranteed by the principal(s) of the borrowers and have original maturities ranging from five to 20 years, which may be extended, subject to certain conditions, by the mutual consent of the Company and the borrower until the loan is fully amortized. The following table sets forth the amortization terms for the loans in the Company's portfolio as of March 31, 1996:

AMORTIZATION TERM	NUMBER OF LOANS	AGGREGATE PRINCIPAL OUTSTANDING (IN THOUSANDS)	PERCENT OF PORTFOLIO
10 years or fewer	9	$ 2,642	4.1%
11 to 20 years	55	59,928	93.6%
21 to 30 years	2	1,478	2.3%
Total	66	$ 64,048	100.0%

The Company lends primarily to borrowers involved in the lodging industry. As of March 31, 1996, 96% of the Company's loan portfolio consisted of loans for the acquisition, renovation and construction of hotels. As of March 31, 1996, Days Inn and Holiday Inn franchisees accounted for 20.3% and 18.5%, respectively, of the Company's outstanding loan portfolio.

The following table sets forth a breakdown of the Company's loan portfolio at March 31, 1996 to borrowers involved in the hotel (national franchises and independent hotels) and commercial real estate industries:

	NO. OF LOANS	PRINCIPAL OUTSTANDING (IN THOUSANDS)	PERCENTAGE OF PORTFOLIO
Days Inn	11	$ 13,015	20.3%
Holiday Inn(1)	12	11,817	18.5%
Ramada Inn	4	5,988	9.4%
Best Western(2)	6	5,378	8.4%
Comfort Inn(3)	7	5,133	8.0%
Hampton Inn(4)	4	4,126	6.4%
Econolodge(5)	3	3,284	5.1%
Howard Johnsons(6)	3	3,283	5.1%
Quality Inn(7)	3	2,441	3.8%
Super 8	3	1,506	2.4%
Knights Inn	1	645	1.0%
Sleep Inn	1	216	0.3%
Total of Franchise Affiliates	58	56,832	88.7%
Independent Hotels	6	4,669	7.3%
Commercial Real Estate	2	2,547	4.0%
Total	66	$ 64,048	100.0%

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(1) Represents (i) five loans originated for Holiday Inn franchises with $5,894,776 principal outstanding which represents 9.2% of the loan portfolio, including one FFE Loan of $180,270, and (ii) seven loans originated for Holiday Inn Express franchisees with $5,921,899 principal outstanding which represents 9.2% of the loan portfolio, including one FFE Loan of $56,704.

(2) Includes one FFE Loan of $311,694.

(3) Represents (i) six loans originated for Comfort Inn franchisees with $4,021,438 principal outstanding which represents 6.3% of the loan portfolio, including one SBA Section 504 program loan of $517,513 and one

FFE Loan of $104,794, and (ii) one loan originated for a Comfort Inn Suite franchisee with $1,111,358 principal outstanding which represents 1.7% of the loan portfolio.

(4) Includes one FFE Loan of $117,335.

(5) Includes one Program loan of $700,000.

(6) Includes one FFE Loan of $60,000.

(7) Includes one Program loan of $593,665.

The following table sets forth the aggregate amount of loans originated or purchased for each quarter for the periods indicated:

LOANS ORIGINATED OR PURCHASED BY QUARTER(1)

(IN THOUSANDS)

	1994	1995	1996
First Quarter	$ 7,039	$ 9,328	$4,830
Second Quarter	13,594	11,110	
Third Quarter	6,471	4,441	
Fourth Quarter	7,879	6,832	
	$34,983	$31,711	

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(1) The Company commenced operations on December 28, 1993 and funded a $3.2 million loan in the period from commencement of operations through December 31, 1993.

The following table sets forth the amount of the Company's loans originated and repaid for the period and years indicated:

	PERIOD FROM JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31 1993(1)	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
		(IN THOUSANDS)		
Loans receivable -- beginning of period	$ --	$ 3,119	$32,694	$59,130
Loans originated or purchased	3,216	34,983	31,711	4,830
Loan repayments(2)	--	(4,862)	(4,992)	(1,015)
Other adjustments(3)	(97)	(546)	(283)	13
Loans receivable -- end of period	$ 3,119	$32,694	$59,130	$62,958

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(1) The Company commenced operations on December 28, 1993.

(2) Includes the payoff on certain SBA 504 loans and prepaid loans.

(3) Includes effect of amortization of loans purchased at a discount and commitment fees collected which are accounted for in accordance with SFAS No. 91.

LENDING ACTIVITIES

During the years ended December 31, 1994 and 1995, and the three months ended March 31, 1996, the Company originated loans to 38, 31 and 4 corporations, partnerships or individuals. During the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, the Company funded approximately $33.6, $31.7 and $4.8 million and collected commitment fees of approximately $1.3 million, $546,000 and $262,000, respectively.

The Company purchased two loans with a face value of $1,502,005 for $1,325,113 from certain governmental agencies during the year ended December 31, 1994. The discount of $176,892 is netted against loans receivable and is being amortized over the remaining life of the loans. During the years ended

December 31, 1994 and 1995, and the three months ended March 31, 1996, approximately $22,000, $26,000 and $7,000, respectively, of the discount was recognized as interest income. Subsequent to December 31, 1994, the Company has purchased no loans.

Approximately 31% and 11% of the Company's loan portfolio as of March 31, 1996 consisted of loans to borrowers in Texas and Maryland, respectively. Approximately 32% and 12% of the Company's loan portfolio as of December 31, 1995 consisted of loans to borrowers in Texas and Maryland, respectively. No other state had a concentration of 10% or greater during either period. The Company's loan portfolio was approximately 96%, concentrated in the lodging industry at both December 31, 1995 and March 31, 1996.

When originating a loan, the Company charges a commitment fee. In accordance with SFAS No. 91, this non-refundable fee, less direct costs associated with the origination, is deferred and included as a reduction of the carrying value of loans receivable. These net deferred commitment fees are being recognized as an adjustment of yield over the life of the related loan. The Company had $664,962, $974,971 and $968,699 in net unamortized deferred commitment fees at December 31, 1994 and 1995, and March 31, 1996, respectively.

DELINQUENCY AND COLLECTIONS

To date, the Company has had only one loan delinquent for longer than 30 days. Such loan was current as of March 31, 1996. If a borrower fails to make a required monthly payment, the borrower will generally be notified by mail after ten days. If the borrower has not made full payment within ten days, a late fee is assessed. If the borrower has not responded or made full payment within 20 days after the loan becomes delinquent, a second notification letter will be sent. Following such notification, a collection officer will initiate telephone contact. If the borrower has not responded or made full payment within 30 days after the loan becomes delinquent, a third notification letter will be sent and follow-up telephone contact will be made by the collection officer. In the event a borrower becomes 45 days delinquent, a ten day demand letter will be sent to the borrower requiring that the loan be brought current within ten days. After the expiration of such ten day period, the Company may proceed with legal action. The Company's policy with respect to loans in arrears as to interest payments for periods in excess of 60 days is to generally discontinue the accrual of interest income on such loans. The Company will deliver a default notice and begin foreclosure and liquidation proceedings when it determines that pursuit of these remedies is the most appropriate course of action. The Company continually monitors loans for possible exposure to loss. In its analysis, the Company reviews various factors, including the value of the collateral securing the loan and the borrower's payment history. Based upon this analysis, a loan loss reserve will be established on a case by case basis. Through March 31, 1996, no loan loss reserve had been established.

SBA SECTION 504 PROGRAM

The Company participates as a private lender in the Program. Participation in the Program offers an opportunity to enhance the credit status of loans. The Program provides assistance to small business enterprises in obtaining subordinate long-term financing by guaranteeing debentures available through certified development companies ("CDCs") for the purpose of acquiring land, buildings, machinery and equipment and for modernizing, renovating or restoring existing facilities and sites. A typical finance structure for a Program project would include a first mortgage covering 50% of the project cost from a private lender such as the Company, a second mortgage obtained through the 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 business enterprise being assisted. The Company generally requires at least 15% of the equity in a project to be contributed by the principals of the borrower as well as guarantees of the principals. The first mortgage is not guaranteed by the SBA. Although the total size of projects utilizing the 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 projects range in size from $500,000 to $2.5 million. A business eligible for financing pursuant to the Program must: (i) be a for-profit corporation, partnership or proprietorship, (ii) not exceed $6 million in net worth, and (iii) not exceed $2 million in average net income (after Federal income taxes) for each of the previous two years. Financing pursuant to the Program cannot be used for working capital or

inventory, consolidating or repaying debt or financing a plant not located in the U.S. or its possessions. As of March 31, 1996, the Company had $1,811,000 outstanding which is anticipated to be paid off by permanent subordinated financing provided by the Program.

U.S. FRANCHISE SYSTEMS, INC. AGREEMENT

On April 12, 1996, the Company entered into a marketing agreement (the "Marketing Agreement") with U.S. Franchise Systems, Inc., a Delaware corporation ("USFS"), whereby USFS, through its wholly-owned subsidiary, Microtel Inns and Suites Franchising, Inc. ("Microtel"), will present and market to prospective Microtel franchisees the Company's current financing programs along with other financing options. Microtel offers franchises for the establishment and operation of a line of economy lodging facilities known as "Microtel Inns," "Microtel Inns & Suites" and "Microtel Suites" (collectively referred to as the "Microtel Inns"). The Microtel Inns are designed to appeal to the traveling public interested in low cost accommodations and basic lodging facilities.

Under the Marketing Agreement, Microtel would refer prospective franchisees of Microtel Inns directly to the Company as a potential lending source in connection with the acquisition and construction of a Microtel Inn. Utilizing its standard underwriting criteria and credit review process, the Company would evaluate each prospective franchisee prior to originating a loan. Under the Marketing Agreement, the Company is under no obligation to originate a loan to prospective franchisee of Microtel. Certain senior officers of Oppenheimer & Co., one of the Representatives of the Underwriters, are investors in USFS for their personal accounts.

USFS will generally deposit 2% of each loan commitment made under the Marketing Agreement with the Company into a reserve account (the "Reserve Account"), with a minimum Reserve Account balance of $100,000, to collateralize the payment and performance of such loans and pay losses, if any, suffered by the Company on uncollected loans. To the extent that the reserve amount exceeds the amount required, such excess amount would be remitted by the Company to USFS each quarter. Under the Marketing Agreement, all fees payable to USFS will be paid by the Investment Manager and the Company will have no obligation with respect thereto.

OTHER INVESTMENTS

The Company has purchased from certain governmental agencies two loans secured by first liens on real estate at a discount. The Investment Manager selected and evaluated such loans using substantially the same underwriting criteria applicable to originated loans. When purchasing loans from governmental agencies, underwriting information received by the Investment Manager, such as loan applications, financial statements, property appraisals and other loan documentation that was developed by the original lending institution, may be outdated. In such cases, the Investment Manager will seek to supplement this information with additional data such as credit reports on borrowers, geographical analysis, industry demographics, economic data and, in selected cases, current property appraisals or site visits. Prohibitions by sellers against contacting borrowers might limit the Investment Manager's ability to obtain accurate current information about the borrower and the Investment Manager may have to rely on the original underwriting information with limited ability to verify the information. These loans are currently performing as agreed.

While the Company has not to date done so, it may also finance real estate investors, who are not operators of the properties financed. Such loans would be collateralized by a lien on the real estate acquired or other real estate owned by the borrower or its principals. The personal guaranty of one or more of the principals will typically be obtained. The loans will generally carry a fixed rate and have maturities of five to 20 years from the date of issuance. In some instances, there may be earlier maturity dates or dates on which the interest rate may be modified. Most loans will provide for scheduled monthly amortization and have a balloon payment requirement. In addition, the Company may also purchase real estate to hold in the Company's investment portfolio.

BORROWER ADVANCES

The Company finances some projects during the construction phase. At March 31, 1996, the Company was in the process of monitoring approximately $21.6 million in total commitments for construction projects, of which $9.9 million had been funded. As part of the monitoring process to verify that the borrower's equity investment is utilized for its intended purpose, the Company holds a portion of the borrower's equity investment. These funds are itemized by category (e.g., interest, inventory, construction contingencies, etc.) and are released by the Company only upon presentation of appropriate documentation relating to the construction project. To the extent possible, these funds are utilized before any related loan proceeds are disbursed. At March 31, 1996, of the borrower advances, $1.1 million was to be disbursed on behalf of borrowers and is included as a liability on the Company's financial statements.

LOAN COMMITMENTS

At March 31, 1996, the Company had approximately $19.2 million of loan commitments outstanding to 15 small business concerns in the lodging industry. The weighted average interest rate on these loan commitments at March 31, 1996 was 10.57%. In addition, the Company had approximately $8.5 million of loan commitments outstanding on 13 partially funded construction loans and $8.0 million of loan commitments outstanding on 11 Program loans. An additional $15.2 million in commitments made by the Investment Manager had been designated for the Company at March 31, 1996, with a weighted average interest rate of 10.64%, subject to availability of funds. These commitments are made in the ordinary course of the Company's business and, in management's opinion, are generally on the same terms as those to existing borrowers. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash commitments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

TAX STATUS

The Company has elected to be taxed as a REIT under Section 856(c) of the Code. As a REIT, the Company generally is not subject to Federal income tax to the extent it distributes at least 95% of its REIT taxable income to shareholders. The Company may, however, be subject to certain state and local taxes on its income and property. REITs are subject to a number of organizational and operational requirements under the Code. See "Federal Income Tax Considerations."

INVESTMENT MANAGER

The investments of the Company are managed by PMC Advisers. Pursuant to the Investment Management Agreement between the Company and PMC Advisers, the Company is obligated to pay to the Investment Manager, quarterly in arrears, a base fee (the "Base Fee") consisting of a quarterly servicing fee of 0.125% of the Average Quarterly Value of All Assets, representing on an annual basis approximately 0.50% of the Average Annual Value of All Assets, and a quarterly advisory fee of 0.25% of the Average Quarterly Value of All Invested Assets, representing on an annual basis approximately 1% of the Average Annual Value of All Invested Assets. In addition, for each calendar year during which the Company's annual Return on Average Equity Capital after deduction of the Base Fee (the "Actual Return") exceeds 6.69%, the Company will pay to the Investment Manager, as incentive compensation, an additional advisory fee (the "Annual Fee") equal to the product determined by multiplying the Average Annual Value of All Invested Assets by a percentage equal to the difference between the Actual Return and 6.69%, up to a maximum of 1% per annum. The Annual Fee will be earned only to the extent that the annual Return on Average Common Equity Capital after the deduction of the Base Fee and Annual Fee is at least equal to 6.69%. All such advisory fees will be reduced by 50% with respect to the value of Invested Assets that exceed Common Equity Capital as a result of leverage or the issuance of Preferred Shares. See "Investment Manager."

Pursuant to the Investment Management Agreement, the Company incurred an aggregate of $429,000, $1,189,000 and $356,000 in management fees for the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, respectively. See "Investment Manager -- Investment Management Agree-

ment." Of the total management fees paid or payable to the Investment Manager as of December 31, 1994 and 1995 and the three months ended March 31, 1996, $71,500, $244,000 and $80,000, respectively, has been netted against commitment fees as a direct cost of originating fees. Pursuant to the Investment Management Agreement, no advisory fees were due to the Investment Manager from inception through June 30, 1994. See "Investment Manager."

COMPETITION

The Company believes its primary competitors are banks, financial institutions, insurance companies and other lending companies. Additionally, there are lending programs which have been established by national franchisors in the lodging industry. Many of these entities may have greater financial and larger managerial resources than the Company. The Company believes that it competes with such entities based on: (i) the interest rates, maturities and payment schedules offered to borrowers, (ii) the reputation, experience and marketing ability of officers of the Investment Manager, (iii) the timely credit analysis and decision-making processes followed by the Investment Manager and (iv) the renewal options available to borrowers.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

Investment Policies. The Company's principal investment objective is to obtain current income from interest payments and other related fee income on its Invested Assets for distribution to shareholders. The Company invests in accordance with underwriting criteria established by the trust managers with the intention of creating a portfolio of investments while preserving the capital base of the Company and generating income for distribution to the Company's shareholders. The Company's investments are primarily intended to be held to maturity. The Company's investments and plan of operation are restricted by tax provisions applicable to REITs. These tax provisions include restrictions on the ability to sell investments for a gain, therefore, the Company has a low turnover rate with respect to its investments.

The Company will not purchase or otherwise acquire equity securities (other than the acquisition of securities upon foreclosure of a security interest, if any), and under no circumstances will the Company invest in the securities of other issuers for the purpose of exercising control. The Company will not underwrite securities of other issuers except to the extent that it might be deemed an "underwriter" for securities law purposes with respect to investments that have not been and may not be offered publicly without registration under federal or state securities laws. The Invested Assets that the Company has originated or acquired will generally be held to maturity; however, the Company may, from time to time, if it determines it to be advantageous and consistent with its status as a REIT, sell specified loans to purchasers. The Company will not offer its own securities in exchange for property, except to the extent that the Company may issue Common Shares, priced at not less than their market value, in lieu of an equivalent amount of cash to purchase Invested Assets or derivative securities where such transaction would, in the judgment of the trust managers, be advantageous to the Company and consistent with the Company's status as a REIT. The Company will not purchase or otherwise reacquire its Common Shares except to the extent that it may elect to redeem Common Shares to maintain its REIT status. The Company may, however, redeem senior securities issued by it to the extent permitted by the terms of such senior securities. The Company may elect to create and sell interests in real estate mortgage investment conduits or collateralized mortgage obligations if deemed appropriate by the Company. The Company will not acquire residual interests in real estate mortgage investment conduits, as defined in the Code, or interests in pools of loans offered by certain governmental agencies or other similar entities, except that the Company may invest temporarily in mortgage pass-through certificates or interests in mortgage pools guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation or similar agencies and instrumentalities. The trust managers, including a majority of the Independent Trust Managers, may adopt or change any investment policy of the Company consistent with its status as a REIT without a vote of the shareholders of the Company.

Financing Policies. The Company intends to borrow money from, and issue debt securities to, banks, insurance companies and other lenders, and may issue Preferred Shares in order to obtain additional funds to originate Primary Investments and Other Investments. No assurance can be given that credit facilities will be

available to the Company on favorable terms or at all. Any such borrowing or issuance of Preferred Shares will require the specific approval of the trust managers, including a majority of the Independent Trust Managers. Except to the extent of nonrecourse purchase money financing from the agencies or other sellers of loans, the Company will not, without the approval of a majority of its shareholders, incur a borrowing or issue Preferred Shares if as a result the Company's total liability for money borrowed would exceed 200% of its shareholders' equity or the total amount of borrowings and obligations in respect of outstanding Preferred Shares would exceed 300% of common shareholders' equity, determined as of the time of each borrowing or issuance.

Affiliate Transaction Policy. Section 4.12 of the Bylaws of the Company provides that, except as otherwise provided by the Declaration of Trust or the Bylaws, and in the absence of fraud, a contract, act or other transaction, between the Company and any other person, or in which the Company is interested, shall be valid and no trust manager or officer of the Company shall have any liability as a result of entering into any such contract, act or transaction, even though (i) one or more of the trust managers, directly or indirectly, is interested in, connected with or is a trustee, partner, director, shareholder, member, employee, officer or agent of such other person, or (ii) one or more of the trust managers, individually or jointly with others, is a party to, or directly or indirectly is interested in, or connected with, such contract, act or transaction, provided that (a) such interest or connection is disclosed in reasonable detail or known to the trust managers and thereafter the trust managers authorize or ratify such contract, act or other transaction by affirmative vote of a majority of the Independent Trust Managers, or (b) such interest or connection is disclosed in reasonable detail or known to the shareholders, and thereafter such contract, act or transaction is approved by shareholders holding a majority of the shares then outstanding and entitled to vote thereon.

Section 4.11 of the Bylaws provide that any trust manager or officer of the Company may acquire, own, hold and dispose of shares of the Company for his individual account, and may exercise all rights of a shareholder to the same extent and in the same manner if he were not a trust manager or officer of the Company. Any trust manager or officer of the Company may, in a capacity other than that of trust manager or officer of the Company, have business interests and engage in business activities similar to or in addition to those relating to the Company which may include the acquisition, syndication, holding, management, development, operation or disposition, for his own account or for the account of others, of interest in mortgages, interests in real property, or interests in persons engaged in the real estate business. Each trust manager and officer of the Company shall be free of any obligation to present to the Company any investment opportunity which comes to him in any capacity other than solely as trust manager or agent of the Company, even if such opportunity is of a character which, if presented to the Company, could be exploited by the Company. Subject to Section 4.12 of the Bylaws discussed above, any trust manager or officer of the Company may be a trustee, officer, director, shareholder, partner, member, advisor or employee of, or otherwise have a direct or indirect interest, in any person who may be engaged to render advice or services to the Company, and may receive compensation from such person as well as compensation as trust manager or officer or otherwise hereunder.

The Company has not adopted any polices with respect to its shareholders, affiliates (other than trust managers and officers) or any other person (i) having any direct or indirect pecuniary interest (a) in any investment to be acquired or disposed of by the Company or (b) in any transactions to which the Company is a party or has an interest, or (ii) engaging for their own account in business activities of the type conducted by the Company.

Reports to Shareholders. The Company provides annual reports to the holders of Common Shares containing audited financial statements with a report thereon from the Company's independent public accountants and, upon request, quarterly reports containing unaudited financial information for each of the first three quarters of each fiscal year. See "Available Information."

SBA REGULATIONS

The Company primarily originates loans to small businesses that, among other things, exceed the net worth, asset, income, number of employees or other limitations applicable to the SBA programs utilized by PMC Capital. See "-- Underwriting Criteria and Loan Originations." While the eligibility requirements of

the Section 7(a) of the SBA program vary by the industry of the borrower and other factors, the general eligibility requirements of loans originated under Section 7(a) of the SBA program are that: (i) gross sales of the borrower cannot exceed a range of between $5.0 million and $21.5 million depending upon the industry of the borrower (other than with respect to certain industries where eligibility is determined based on a number of employees), (ii) when the total amount of the proposed financing (a) is $250,000 or less, each 20% owner of the applicant must contribute to the business personal liquid assets per the SBA rules and regulations ("Personal Liquid Assets") in excess of two times the total financing or $100,000, whichever is greater, (b) is between $250,0000 and $500,000, each 20% owner of the applicant must contribute Personal Liquid Assets to the business in excess of one and one-half times the total financing or $500,000, whichever is greater and (c) exceeds $500,000, each 20% owner of the applicant must contribute to the business Personal Liquid Assets in excess of one times the total financing or $750,000, whichever is greater, and (iii) the maximum aggregate SBA loan guarantees to a borrower cannot exceed $750,000.

Loans originated pursuant to the SBIC program are not guaranteed by SBA and generally require that: (i) the net worth of the borrower and certain affiliates of the borrower cannot exceed $18 million; and (ii) net income after Federal income taxes of the borrower averages less than $6 million for the most recent two years.

EMPLOYEES

The Company has no salaried employees. All personnel required for the Company's operations are provided by the Investment Manager.

LEGAL PROCEEDINGS

The Company is involved from time to time in routine litigation incidental to its business. The Company does not believe that its current proceedings will have a material adverse effect on the results of operations or financial condition of the Company.

MANAGEMENT

TRUST MANAGERS AND OFFICERS

The Company is managed by its trust managers, who are elected annually by the shareholders. The trust managers are responsible for appointing the executive officers of the Company, for selecting, monitoring and supervising the Investment Manager, for approving borrowings by the Company and for periodically valuing the Company's portfolio. The trust managers are also responsible for the adoption from time to time of such investment policies and limitations as they may deem appropriate in light of the Company's investment objective.

The following table sets forth the names and positions of the trust managers and officers of the Company.

NAME	POSITIONS AND OFFICES WITH THE COMPANY(1)
Dr. Andrew S. Rosemore(2).....	Chairman of the Board, Executive Vice President, Chief Operating Officer, Treasurer and Trust Manager
Lance B. Rosemore(2).....	President, Chief Executive Officer, Secretary and Trust Manager
Jan F. Salit.....	Executive Vice President, Chief Investment Officer and Assistant Secretary
Barry N. Berlin.....	Chief Financial Officer
Mary J. Brownmiller.....	Senior Vice President
Nathan G. Cohen(3).....	Trust Manager
Dr. Martha R. Greenberg(2).....	Trust Manager
Roy H. Greenberg(3).....	Trust Manager
Irving Munn(3).....	Trust Manager
Dr. Ira Silver(3).....	Trust Manager

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(1) All of the officers of the Company have held positions with the Company since the formation of the Company on June 4, 1993.

(2) Lance B. Rosemore and Dr. Andrew S. Rosemore are brothers and Dr. Martha R. Greenberg is their sister.

(3) Messrs. Cohen, Greenberg and Munn and Dr. Silver serve as Independent Trust Managers.

Information concerning the trust managers and executive officers of the Company is as follows:

DR. ANDREW S. ROSEMORE -- Dr. Rosemore, 49, has been Executive Vice President, Chief Operating Officer and Treasurer of the Company since June 1993 and has been Chairman of the Board of Trust Managers since January 1994. He has also been the Chief Operating Officer of PMC Capital since May 1992 and Executive Vice President of PMC Capital since 1990. From 1988 to May 1990, Dr. Rosemore was Vice President of PMC Capital. Dr. Rosemore has been a director of PMC Capital since 1988.

MR. LANCE B. ROSEMORE -- Mr. Rosemore, 47, has been President, Chief Executive Officer and Secretary of the Company since June 1993. He has also been Chief Executive Officer of PMC Capital since May 1992 and President of PMC Capital since 1990. Mr. Rosemore has been employed by PMC Capital since 1979. From 1990 to May 1992, Mr. Rosemore was Chief Operating Officer of PMC Capital. Mr. Rosemore has been Secretary of PMC Capital since 1983. Mr. Rosemore has been a director of PMC Capital since 1983.

MR. JAN F. SALIT -- Mr. Salit, 46, has been Executive Vice President of the Company since June 1993, and Chief Investment Officer and Assistant Secretary since January 1994. He has also been Executive Vice

President of PMC Capital since May 1993 and Chief Investment Officer and Assistant Secretary of PMC Capital since March 1994. From 1979 to 1992, Mr. Salit was employed by Glenfed Financial Corporation and its predecessor company Armco Financial Corporation, a commercial finance company, holding various positions including Executive Vice President and Chief Financial Officer.

MR. BARRY N. BERLIN --Mr. Berlin, 36, has been Chief Financial Officer of the Company since June 1993. Mr. Berlin has also been Chief Financial Officer of PMC Capital since November 1992. From August 1986 to November 1992, he was an audit manager with Imber and Company, Certified Public Accountants. Mr. Berlin is a Certified Public Accountant.

MS. MARY J. BROWNMILLER -- Ms. Brownmiller, 41, has been Senior Vice President of the Company since June 1993. Ms. Brownmiller has also been Senior Vice President of PMC Capital since 1992 and Vice President of PMC Capital since November 1989. From 1987 to 1989, she was Vice President for Independence Mortgage, Inc., an SBA lender. From 1976 to 1987, Ms. Brownmiller was employed by the SBA, holding various positions including senior loan officer. While at the SBA, Ms. Brownmiller was involved in making credit decisions, monitoring adherence to SBA underwriting criteria and assisting in the final determination as to the approval of loans of all sizes. Ms. Brownmiller is a Certified Public Accountant.

MR. NATHAN G. COHEN --Mr. Cohen, 50, has been an Independent Trust Manager of the Company since May, 1994. Mr. Cohen has been Controller and Chief Financial Officer of ATCO Rubber Products, Inc., a manufacturer of products for HVAC systems, since November 1986.

DR. MARTHA R. GREENBERG -- Dr. Greenberg, 45, has been a trust manager of the Company since May 1996. Dr. Greenberg has practiced optometry for 17 years in Russellville, Alabama. Dr. Greenberg has been a director of PMC Capital since 1984. Dr. Greenberg is not related to Mr. Roy H. Greenberg, but is the sister of Mr. Lance B. Rosemore and Dr. Andrew S. Rosemore.

MR. ROY H. GREENBERG -- Mr. Greenberg, 37, has been an Independent Trust Manager of the Company since September 1993. Mr. Greenberg has been the President of Whitehall Real Estate, Inc., a real estate management firm, since December 1989. Prior thereto, he was Vice President of GHR Realty Holding Group, Inc., a real estate management company, from June 1985 to December 1989. Mr. Greenberg is not related to Dr. Martha R. Greenberg.

MR. IRVING MUNN -- Mr. Munn, 46, has been an Independent Trust Manager of the Company since September 1990. Mr. Munn has been a principal of Kaufman, Munn and Associates, P.C., a public accounting firm in Dallas, Texas or its predecessor, since 1990. For more than two years prior thereto, Mr. Munn was a manager with the accounting firm Philip Vogel & Co. in Dallas, Texas. Mr. Munn is a Certified Public Accountant.

DR. IRA SILVER -- Dr. Silver, 50, has been an Independent Trust Manager of the Company since May 1996. Dr. Silver has been employed by J.C. Penney Co., Inc. since 1978, is currently their Chief Economist and since 1984 has been a Manager of Planning, Forecasting and Technical Support in the Planning and Research Department. He holds a Ph.D in Economics from the City University of New York. Dr. Silver had been a director of PMC Capital from 1992 through 1994.

All officers and trust managers hold office until their respective successors are elected and qualified or until their earlier resignation or removal. The Company has elected four Independent Trust Managers who are not affiliated with the Investment Manager or PMC Capital. Messrs. Greenberg and Munn comprise the Audit Committee of the Board of Trust Managers and all of the Independent Trust Managers serve as the administrators of the Share Option Plans (as defined below).

A majority of the Independent Trust Managers must approve all transactions between PMC Advisers or PMC Capital and the Company, including the approval and renewal of the Investment Management Agreement. Although Dr. Silver served as a director of PMC Capital from 1992 to 1994, the Company does not believe that such relationship with PMC Capital affects his ability to serve as an Independent Trust Manager. To the extent that any trust manager is interested in a proposed transaction involving the Company, such trust manager would be considered an interested party with respect to such transaction and such

transaction must be approved by the disinterested trust managers as indicated under "Transactions with Affiliates" below.

The Independent Trust Managers will each (i) be reimbursed by the Company for their expenses in attending meetings of trust managers or any committee thereof, (ii) receive a fee of $500 for attendance in person at each meeting, and (iii) be granted options under the Trust Managers Plan (as defined below). The Company's officers are employees of the Investment Manager and receive no compensation from the Company for their services as officers or trust managers, although they may receive options under the Employee Plan (as defined below).

LIMITATION OF LIABILITY AND INDEMNIFICATION

Section 9.20 of the Texas REIT Act, subject to procedures and limitations stated therein, allows the Company to indemnify any person who was, is or is threatened to be made a named defendant or respondent in a proceeding because the person is or was a trust manager or officer against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses actually incurred by the person in connection with the proceeding. The Company is required by Section 9.20 of the Texas REIT Act to indemnify a trust manager or officer against reasonable expenses incurred by him in connection with a proceeding in which he is a named defendant or respondent because he is or was a trust manager or officer if he has been wholly successful, on the merits or otherwise, in the defense of the proceeding. Under the Texas REIT Act, trust managers and officers are not entitled to indemnification if (i) the trust manager or officer is found liable to the real estate investment trust or is found liable on the basis that personal benefit was improperly received and (ii) the trust manager or officer was found liable for willful or intentional misconduct in the performance of his duty to the real estate investment trust. The statute provides that indemnification pursuant to its provisions is not exclusive of other rights of indemnification to which a person may be entitled under any provision of the Declaration of Trust, bylaws, agreements or otherwise. In addition, the Company has, pursuant to Section 15.10 of the Texas REIT Act, provided in its Declaration of Trust that, to the fullest extent permitted by applicable law, a trust manager of the Company shall not be liable for any act, omission, loss, damage or expense arising from the performance of his duty under the Texas REIT Act, except for his own willful misfeasance, malfeasance or negligence.

The Company's Declaration of Trust and Bylaws provide for indemnification by the Company of its trust managers and officers to the fullest extent permitted by the Texas REIT Act. In addition, the Company's Bylaws provide that the Company may pay or reimburse, in advance of final disposition of a proceeding, reasonable expenses incurred by a present or former trust manager or officer made a party to a proceeding by reason of his status as a trust manager or officer provided that (i) the trust managers have consented to the advancement of expenses (which consent shall not unreasonably be withheld) and (ii) the Company shall have received (a) a written affirmation by the trust manager or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the Company under the Texas REIT Act and (b) a written undertaking by or on his behalf to repay the amount paid or reimbursed by the Company if it shall ultimately be determined that the standard of conduct was not met or it is ultimately determined that indemnification of the trust manager or officer against expenses incurred by him in connection with that proceeding is prohibited by Section 9.20 of the Texas REIT Act.

In addition, the Investment Management Agreement provides that the Investment Manager shall be deemed an agent of the Company and the Investment Manager and its directors, officers and employees shall be indemnified by the Company to the same extent as the trust managers and officers of the Company.

SHARE OPTION PLANS

General. The Company has adopted the 1993 Employee Share Option Plan (the "Employee Plan") and the 1993 Trust Manager Share Option Plan (the "Trust Manager Plan," and together with the Employee Plan, the "Share Option Plans"). The purpose of the Share Option Plans is to provide a means of performance-based compensation in order to attract and retain qualified personnel to serve as trust managers and officers of the Company and to provide an incentive to others such as the directors, officers or key

employees of the Investment Manager whose job performance affects the Company. The Share Option Plans each provide for administration by a committee of the Independent Trust Managers established for such purpose (the "Plan Administrators"). The exercise price for any option granted under the Share Option Plans may not be less than 100% of the fair market value of the Common Shares at the time the option is granted.

Subject to anti-dilution provisions for stock splits, stock dividends and similar events, the Share Option Plans authorize the grant of options to acquire in the aggregate Common Shares in an amount equal to 6% of the issued and outstanding Common Shares at any time. If an option granted under the Share Option Plans expires or terminates, the Common Shares subject to any unexercised portion of that option will again become available for the issuance of further options under the Share Option Plans. Unless previously terminated by the trust managers, the Share Option Plans will terminate on the tenth anniversary of the effective date of the Share Option Plans and no options may be granted under the Share Option Plans thereafter.

No options may be granted under the Share Option Plans to any person who, assuming exercise of all options held by such person, would own or be deemed to own more than 9.8% of the outstanding Common Shares. There is no limit on the number of nonqualified options that may be granted to any one individual, provided that the grant of the options may not cause the Company to fail to qualify as a REIT. An optionee may, with the consent of the Plan Administrators, elect to pay for the Common Shares to be received upon exercise of his options in cash, Common Shares or any combination thereof.

The trust managers may, without affecting any outstanding options, from time to time revise or amend the Share Option Plans, and may suspend or discontinue the Share Option Plans at any time. However, no such revision or amendment may increase the number of shares subject to the Share Option Plans (with the exception of adjustments resulting from changes in capitalization), change the class of participants eligible to receive options granted under the Share Option Plans or modify the period within which or the terms upon which the options may be exercised pursuant to the Share Option Plans without shareholder approval.

The Employee Plan. The Employee Plan provides for the grant of both qualified incentive share options ("ISOs") which meet the requirements of Section 422 of the Code and nonqualified share options. ISOs may be granted to the officers and key employees of the Company. Nonqualified share options may be granted to the trust managers who are officers of the Company, other officers and key employees (if any) of the Company and to the management, directors, officers and key employees of the Investment Manager. Options granted under the Employee Plan will become exercisable in accordance with the terms of the grant made by the Plan Administrators. The Plan Administrators have discretionary authority to select participants from among eligible persons and to determine at the time an option is granted whether it is intended to be an ISO or a nonqualified option, and when and in what increments Common Shares covered by the option may be purchased. Under current law, ISOs may not be granted to any trust manager of the Company who is not also a full time employee or to directors, officers and other employees of entities unrelated to the Company.

With respect to ISOs granted under the Employee Plan, the exercise price must be at least equal to the fair market value of the Common Shares on the date of grant and the term cannot exceed five years. With respect to any individual, the aggregate fair market value (determined at the time the option is granted) of Common Shares with respect to which ISOs may be granted under the Employee Plan, or any other plan of the Company, which options are exercisable for the first time during any calendar year, may not exceed $100,000.

Each option must terminate no more than five years from the date it is granted. Options may be granted on terms providing that they will be exercisable either in whole or in part at any time or times during their respective terms, or only in specified percentages at stated time periods or intervals during the term of the option.

The Trust Manager Plan. Only Independent Trust Managers are eligible to participate in the Trust Managers Plan which provides for the grant of nonqualified stock options. The Trust Manager Plan is a nondiscretionary plan pursuant to which options to purchase 2,000 Common Shares are granted to each Independent Trust Manager on the date such trust manager takes office and additional options to purchase 1,000 Common Shares are granted each year thereafter on the anniversary date of the date that the trust

manager takes office so long as such trust manager is re-elected to serve as a trust manager. Such options are exercisable at the fair market value of the Common Shares on the date of grant. The options granted under the Trust Manager 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 Independent Trust Manager for any reason or (ii) within five years after date of grant.

COMPENSATION OF TRUST MANAGERS

During 1995, the Independent Trust Managers received a $500 fee for each meeting the Board of Trust Managers attended. The Independent Trust Managers will be reimbursed by the Company for their expenses related to attending board or committee meetings. For the year ended December 31, 1995, each of Messrs. Cohen and Munn received $2,500 and Mr. Greenberg received $2,000 for services rendered as Independent Trust Managers.

In accordance with the terms of the Trust Manager Plan, each of the Independent Trust Managers is, on the anniversary date of his election to the Board of Trust Managers, automatically granted options (which are exercisable one year after the date of grant) to purchase 1,000 Common Shares. Accordingly, each of Messrs. Greenberg and Munn was granted an option to acquire 1,000 Common Shares on December 15, 1995, at an exercise price of $15.75 per share, and Mr. Cohen was granted an option to acquire 1,000 Common Shares on May 10, 1995, at an exercise price of $14.125 per share, in each case the exercise price was equal to the fair market value of the Common Shares on the date of grant.

OPTION GRANTS

The following table sets forth information regarding stock options granted to each of the executive officers in the fiscal year ended December 31, 1995.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF SHARE PRICE APPRECIATION FOR OPTION TERM	
					5%	10%
Lance B. Rosemore	6,000	27%	$15.75	12/15/00	$26,108	$57,693
Andrew S. Rosemore	6,000	27%	15.75	12/15/00	26,108	57,693
Jan F. Salit	3,840	18%	15.75	12/15/00	16,709	36,924
Barry N. Berlin	3,840	18%	15.75	12/15/00	16,709	36,924
Mary J. Brownmiller	1,200	5%	15.75	12/15/00	5,222	11,539

OPTION EXERCISES AND YEAR-END OPTION VALUES

The following table sets forth, for each of the executive officers, information regarding exercise of stock options during the fiscal year ended December 31, 1995 and the value of unexercised stock options as of December 31, 1995. The closing price for the Common Shares, as reported by the American Stock Exchange, on December 29, 1995 (the last trading day of the fiscal year) was $16.25.

NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1995 (EXERCISABLE/UNEXERCISABLE) (#)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1995 (EXERCISABLE/UNEXERCISABLE) ($)
Lance B. Rosemore	7,675	35,017	13,675(u)	36,578(u)
Andrew S. Rosemore	7,675	35,017	13,675(u)	36,578(u)
Jan F. Salit	2,026	9,243	1,814(e)/7,680(u)	7,936(e)/18,720(u)
Barry N. Berlin	1,498	6,834	2,342(e)/7,680(u)	10,246(e)/18,720(u)
Mary J. Brownmiller	307	1,401	893(e)/2,400(u)	3,907(e)/5,850(u)

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(e) Options are exercisable within 60 days of the date hereof.

(u) Options are not exercisable within 60 days of the date hereof.

INVESTMENT MANAGER

As a wholly-owned subsidiary and investment manager of PMC Capital, PMC Advisers also generates lending opportunities which fulfill the investment criteria of the Company. Through this advisory relationship, the Company benefits from PMC Capital's over 17 years of operating history and over $350 million in assets under management. The principal address of the Investment Manager is 17290 Preston Road, Third Floor, Dallas, Texas 75252 and its telephone number is (214) 380-0044.

All of the directors and officers of PMC Advisers are also directors and officers of PMC Capital. In addition, the trust managers, other than the Independent Trust Managers, and the officers of the Company are directors and officers of the Investment Manager. See "Risk Factors" and "Management." The directors and officers of the Investment Manager are as follows:

NAME	POSITIONS AND OFFICES WITH THE INVESTMENT MANAGER
Dr. Fredric M. Rosemore.....	Chairman of the Board and Treasurer
Lance B. Rosemore(1)(2).....	President, Chief Executive Officer and Secretary
Dr. Andrew S. Rosemore(1)(2).....	Executive Vice President and Chief Operating Officer
Jan F. Salit(2).....	Executive Vice President, Chief Investment Officer and Assistant Secretary
Barry N. Berlin(2).....	Chief Financial Officer
Mary J. Brownmiller(2).....	Senior Vice President
Dr. Irvin M. Borish.....	Director
Robert Diamond.....	Director
Dr. Martha R. Greenberg(1)(2).....	Director
Thomas Hamill.....	Director
Barry A. Imber.....	Director
Lee Ruwitch.....	Director

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(1) Lance B. Rosemore and Dr. Andrew S. Rosemore are the sons, and Dr. Martha Greenberg is the daughter, of Dr. Fredric M. Rosemore.

(2) Also serve as trust managers or officers of the Company. See "Management" for additional information with respect to such persons.

Information relating to the directors of the Investment Manager who do not have a position with the Company is as follows:

DR. FREDRIC M. ROSEMORE -- Dr. Rosemore, 72, has been the Chairman of the Board and Treasurer of PMC Capital since 1983. From 1990 to 1992, Dr. Rosemore was a Vice President of PMC Capital and from 1979 to 1990, Dr. Rosemore was the President of PMC Capital. For many years, he was engaged in diverse businesses, including the construction of apartment complexes, factory buildings and numerous commercial retail establishments. From 1948 to 1980, Dr. Rosemore practiced optometry. He has been a director of PMC Capital since 1983.

DR. IRVIN M. BORISH -- Dr. Borish, 83, served as Benedict (Distinguished) Professor of Optometry at the University of Houston, after retiring from Indiana University, where he holds the status of Professor Emeritus. He practiced optometry for over 30 years. He is the author of a major text in his field and holds five patents in contact lenses. Dr. Borish has been a director of PMC Capital since 1989.

MR. ROBERT DIAMOND -- Mr. Diamond, 64, has been an attorney for 39 years. He is currently of counsel to the law firm of Diamond & Diamond, P.A., Millburn, New Jersey. He served as a director of PMC Capital from 1982 to 1992 and rejoined the Board of Directors in January 1994. He served as a member of the Board

of Directors of Allstate Financial Corporation from 1991 to 1993. He has managed personal investments since 1991.

MR. THOMAS HAMILL -- Mr. Hamill, 42, has been the President, Chief Executive Officer and a director of Caliban Holdings and its subsidiary, Belvedere Holdings Ltd. ("Belvedere"), since 1993. From 1989 to 1993, Mr. Hamill was the President, Chief Operating Officer and a director of Belvedere. From September 1986 to December 1989, Mr. Hamill was Vice President of Belvedere America Re and Vice President and Secretary of Belvedere Corporation. Mr. Hamill is the Chairman of the Board and a non-executive director of Midlands Management Corporation. Mr. Hamill has been a director of PMC Capital since 1992.

MR. BARRY A. IMBER -- Mr. Imber, 49, has been a principal of Imber and Company, Certified Public Accountants, or its predecessor, since 1982. Imber and Company was the independent certified public accountant for PMC Capital and its subsidiaries for the years ended December 31, 1988 through December 31, 1991. Mr. Imber was a Trust Manager of the Company from September 1993 to March 1995 and a director of PMC Capital since March 1995.

MR. LEE RUWITCH -- Mr. Ruwitch, 82, has managed personal investments since 1986. Since 1987, he has been the President of LFR Corporation and since 1992, he has been a partner in TCA Joint Venture. Each of these entities is principally engaged in the business of financial investments. From 1964 to 1986, Mr. Ruwitch was the publisher and owner of Review Business Publications, Inc. in Miami, Florida. From 1949 to 1964, he served as president of the company which operates public television station WTVJ in Miami, Florida. Mr. Ruwitch has been active in the communications industry for over 30 years. Mr. Ruwitch has been a director of PMC Capital since 1984.

INVESTMENT MANAGEMENT AGREEMENT

The Company has entered into an Investment Management Agreement with the Investment Manager. The Investment Management Agreement expires on December 31 of each year and is currently scheduled to expire on December 31, 1996; however, it is renewable by the Company, subject to (i) a determination by a majority of the Independent Trust Managers that the Investment Manager's performance has been satisfactory, (ii) a determination by a majority of the Independent Trust Managers that the terms of the Investment Management Agreement are appropriate in light of the Company's performance and then existing economic conditions, and (iii) the termination rights of the parties. The Investment Management Agreement may be terminated for any reason upon 60 days' written notice by (i) a majority vote of the Independent Trust Managers of the Company, (ii) a vote of the holders of more than two-thirds of the outstanding Common Shares, or (iii) a majority vote of the independent directors of the Investment Manager. Other than the notice provision, there is no contractual impediment to the termination of the Investment Management Agreement by PMC Advisers. In the event the Investment Management Agreement were terminated, a significant portion of the then outstanding commitments would no longer be required to be funded by the Company; however, such commitments will remain the obligations of PMC Advisers. See "Risk Factors -- Credit Risks of Loans." The Investment Management Agreement is not assignable by the Investment Manager without the written consent of the Company. All transactions with the Investment Manager must be approved by a majority of the Independent Trust Managers as well as a majority of the independent directors of the Investment Manager, although no shareholder approval of either party is required. Additionally, the Investment Management Agreement may be amended, supplemented, discharged or modified, provided that such amendment, supplement, discharge or modification, in the case of the Company, is approved by a majority vote of the Independent Trust Managers or a vote of the holders of more than two-thirds of the outstanding Common Shares and, in the case of PMC Advisers, is approved by a majority vote of its disinterested directors. While the Company has no current relationship with any investment manager other than PMC Advisers, management of the Company believes that in the event that the Investment Management Agreement is not renewed, the Company can obtain the services of third party investment advisers or hire sufficient personnel to internally manage the Company's investments, although there is no assurance that similar investment management services can be obtained on similar terms. See "Risk Factors -- Reliance on Management and Investment Manager."

Pursuant to the Investment Management Agreement, the Investment Manager, under the supervision of the trust managers, identifies, evaluates, structures and closes the investments made by the Company, arranges debt financing for the Company, subject to the approval of the Independent Trust Managers, and is responsible for monitoring the investments made by the Company, including loan portfolio management and servicing.

The Company pays all operating expenses except those specifically required to be borne by the Investment Manager pursuant to the Investment Management Agreement. The operating expenses required to be borne by the Investment Manager include any compensation to the Company's officers (other than stock options) and the cost of office space, equipment and other personnel required for the Company's day-to-day operations. The expenses paid by the Company include transaction costs incident to the acquisition and disposition of investments, regular legal and auditing fees and expenses, the fees and expenses of the Company's Independent Trust Managers, the costs of printing and mailing proxies and reports to shareholders and the fees and expenses of the Company's custodian and transfer agent, if any. The Company, rather than the Investment Manager, is also required to pay expenses associated with any litigation and other extraordinary or nonrecurring expenses. All fees that may be paid to the Investment Manager by any person other than the Company in connection with any investment transaction of the Company will be paid or credited to the Company.

Pursuant to the Investment Management Agreement, the Company pays to the Investment Manager, quarterly in arrears, a Base Fee consisting of a quarterly servicing fee of 0.125% of the Average Quarterly Value of All Assets, representing on an annual basis approximately 0.5% of the Average Annual Value of All Assets, and a quarterly advisory fee of .25% of the Average Quarterly Value of all Invested Assets, representing on an annual basis approximately 1% of the Average Annual Value of All Invested Assets. In addition, for each calendar year during which the Actual Return exceeds 6.69%, the Company will pay to the Investment Manager, as incentive compensation, the Annual Fee equal to the product determined by multiplying the Average Annual Value of All Invested Assets by a percentage equal to the difference between the Actual Return and 6.69%, up to a maximum of one percent (1%) per annum. The Annual Fee will be earned only to the extent that the annual Return on Average Common Equity Capital after deduction of the Base Fee and Annual Fee is at least equal to the minimum return of 6.69%. The Annual Fee will be calculated and paid (to the extent payable) on an annual basis without regard to cumulative performance results from preceding years. All advisory fees will be reduced by 50% with respect to the value of Invested Assets that exceed Common Equity Capital as a result of leverage. In addition, the Base Fee shall be reduced for each quarter during the term of the Investment Management 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 certain assets. The quarterly fee and any Annual Fee are paid as soon as practical after the values have been determined. See "Risk Factors -- Conflicts of Interest; Transactions with Affiliates" and "Glossary."

The following table sets forth the management fees paid by the Company to the Investment Manager for the periods indicated:

	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,
	1994	1995	1996
Base Fees			
Advisory Fee	$133,831	$ 455,363	$136,688
Servicing Fee	246,876	266,792	82,716
Total Base Fee	380,707	722,155	219,404
Annual Fee	48,104	467,565	136,688
Total Management Fee	$428,811	$1,189,720	$356,092

Pursuant to the Investment Management Agreement, for the six month period following any public offering of Common Shares by the Company (other than pursuant to the Plan and the Share Option Plans),

no additional servicing fees will be charged by the Investment Manager with respect to the proceeds received from such public offering. In addition, the proceeds of any such offering will not be included in Common Equity Capital for determining the reduction of the advisory fees as a result of leverage for such six month period. See "Glossary."

The trust managers believe that the compensation paid to the Investment Manager under the Investment Management Agreement is fair in the context of (i) the services to be provided by the Investment Manager, (ii) the fee arrangements of investment advisers in other real estate investment trusts, (iii) the annual renewal and termination provisions of the Investment Management Agreement, and (iv) returns on similar investments. The ability of the Company to achieve an Actual Return in excess of 6.69%, and of the Investment Manager to earn the incentive compensation described in the preceding paragraph, is dependent upon the level and volatility of interest rates, the Company's ability to react to changes in interest rates and to utilize successfully the operating strategies described herein, and other factors, many of which are not within the control of the Company or the Investment Manager.

In accordance with the terms of the Investment Management Agreement, the Investment Manager will be considered an agent of the Company for the purpose of the indemnification provisions of the Company's Declaration of Trust and Bylaws and will not be liable to the Company, its shareholders or creditors except for violation of law or conduct which would preclude indemnification by the Company.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the outstanding Common Shares as of May 31, 1996, by (i) the only shareholder known to the management of the Company to own beneficially more than 5% of the outstanding Common Shares, (ii) each trust manager and executive officer, and (iii) the trust managers and executive officers as a group. Each person named in the table has sole voting and investment power with respect to all of the Common Shares shown as beneficially owned by such person:

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF COMMON SHARES BENEFICIALLY OWNED	PERCENT PRIOR TO THE OFFERING
Dr. Andrew S. Rosemore(1)	68,385	1.9%
Dr. Martha R. Greenberg	26,795	*
Lance B. Rosemore(2)	20,543	*
Nathan G. Cohen(3)	4,700	*
Irving Munn	4,000	*
Barry N. Berlin(4)	3,893	*
Jan F. Salit	3,840	*
Roy H. Greenberg	3,500	*
Mary J. Brownmiller	1,200	*
Peter B. Cannell & Co., Inc. 919 Third Avenue New York, New York 10022	359,825(5)	10.0%
All trust managers and executive officers as a group (10 persons)**	136,856	3.8%

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* Less than 1%.

** Dr. Ira Silver owns no Common Shares.

(1) Includes 28,950 shares held by his profit sharing plan, 23,400 shares held by his IRA account, 3,570 held in a trust of which Dr. Rosemore is the beneficiary and 400 shares held in the name of his minor children.

(2) Includes 1,231 shares held in the name of his minor children, and 4,600 shares held in a trust of which Mr. Rosemore is the beneficiary.

(3) Includes 1,200 shares held in the name of his wife.

(4) Includes 53 shares held in the name of his minor child.

(5) Based on a statement on Schedule 13G filed with the Securities and Exchange Commission on February 12, 1996. Peter B. Cannell & Co., Inc. ("Cannell") is a registered investment adviser and the shares reported on the Schedule 13G are held in client discretionary investment advisory accounts. While Cannell may be deemed to be the beneficial owner of these shares under the rules of the Securities and Exchange Commission, Cannell disclaims any beneficial interest of all such Common Shares.

DESCRIPTION OF SHARES OF BENEFICIAL INTEREST

GENERAL

The Declaration of Trust of the Company authorizes the Company to issue up to 100,000,000 shares of beneficial interest of the Company ("Trust Shares"), consisting of Common Shares, Preferred Shares and such other types of classes of shares of beneficial interest as the trust managers may create and authorize from time to time. Upon completion of the Offering, 5,639,346 Common Shares will be issued and outstanding, excluding up to 300,000 Common Shares which may be purchased by the Underwriters to cover over-allotments, if any. As of May 31, 1996, there were 3,579,346 Common Shares issued and outstanding.

The Company's Declaration of Trust also provides that, subject to the provisions of any class or series of the capital shares of the Company then outstanding, the shareholders of the Company shall be entitled to vote only on the following matters: (i) election or removal of trust managers; (ii) amendment of the Declaration of Trust; (iii) termination of the Company; (iv) reorganization of the Company; (v) merger or consolidation of the Company or the sale or disposition of all or substantially all of the Company's assets; and (vi) termination of the Investment Management Agreement. Except with respect to the foregoing matters, no action taken by the shareholders of the Company at any meeting shall in any way bind the trust managers.

Both the Texas REIT Act and the Company's Declaration of Trust provide that no shareholder of the Company will be individually or personally liable for any obligation of the Company. The Company's Bylaws further provide that the Company shall indemnify each shareholder against any claim or liability to which the shareholder may become subject by reason of his being or having been a shareholder, and that the Company shall reimburse each shareholder for all legal and other expenses reasonably incurred by him in connection with any such claim or liability. In addition, it will be the Company's policy to include a clause in its contracts which provides that shareholders assume no personal liability for obligations entered into on behalf of the Company. However, with respect to tort claims, contractual claims where shareholder liability is not so negated, claims for taxes and certain statutory liability, the shareholder may, in some jurisdictions, be individually or personally liable to the extent that such claims are not satisfied by the Company. Inasmuch as the Company will carry liability insurance which it considers adequate, any risk of personal liability to shareholders is limited to situations in which the Company's assets plus its insurance coverage would be insufficient to satisfy the claims against the Company and its shareholders.

Common Shares of Beneficial Interest. Each outstanding Common Share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trust managers. There is no cumulative voting in the election of trust managers, which means that the holders of two-thirds of the outstanding Common Shares can elect all of the trust managers then standing for election. Holders of Common Shares are entitled to such distributions as may be declared from time to time by the trust managers out of funds legally available therefor. See "Dividends and Distributions Policy."

Holders of Common Shares have no conversion, redemption or preemptive rights to subscribe for any securities of the Company. All outstanding Common Shares will be fully paid and nonassessable. In the event of any liquidation, dissolution or winding-up of the affairs of the Company, holders of Common Shares will be entitled to share ratably in the assets of the Company remaining after provision for payment of liabilities to creditors and payment of liquidation preferences to holders of Preferred Shares, if any.

Preferred Shares of Beneficial Interest. The Preferred Shares authorized by the Company's Declaration of Trust may be issued from time to time in one or more series in such amounts and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption as may be fixed by the trust managers. Under certain circumstances, the issuance of Preferred Shares could have the effect of delaying, deferring or preventing a change of control of the Company and may adversely affect the voting and other rights of the holders of the Common Shares. Upon completion of the Offering, no Preferred Shares will be outstanding and the Company has no present plans to issue any Preferred Shares following the completion of the Offering.

Classification or Reclassification of Common Shares of Beneficial Interest or Preferred Shares of Beneficial Interest. The Declaration of Trust authorizes the trust managers to classify or reclassify any unissued Common Shares or Preferred Shares by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption.

RESTRICTIONS ON TRANSFER

For the Company to qualify as a REIT under the Code, (i) not more than 50% in value of its outstanding Trust Shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year; (ii) the Trust Shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year; and (iii) certain percentages of the Company's gross income must be from particular activities. See "Federal Income Tax Considerations." Because the trust managers believe it is essential for the Company to continue to qualify as a REIT, the Declaration of Trust, subject to certain exceptions, provides that no holder other than any person approved by the trust managers, at their option and in their discretion (provided that such approval will not result in the termination of the status of the Company as a REIT), may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% (the "Ownership Limit") of the lesser of the number or value (in either case as determined in good faith by the trust managers) of the total outstanding Trust Shares. The trust managers may waive the Ownership Limit if evidence satisfactory to the trust managers and the Company's tax counsel is presented that such ownership will not then or in the future jeopardize the Company's status as a REIT. As a condition of such waiver, the intended transferee must give written notice to the Company of the proposed transfer and must furnish such opinions of counsel, affidavits, undertakings, agreements and information as may be required by the trust managers no later than the 15th day prior to any transfer which, if consummated, would result in the intended transferee owning Trust Shares in excess of the Ownership Limit. The foregoing restrictions on transferability and ownership will not apply if the trust managers determine that it is no longer in the best interests of the Company to attempt to qualify, or to continue to qualify, as a REIT. Any transfer or issuance of Trust Shares or any security convertible into Trust Shares that would (i) create a direct or indirect ownership of Trust Shares in excess of the Ownership Limit, (ii) with respect to transfers only, result in the Trust Shares being owned by fewer than 100 persons, or (iii) result in the Company being "closely held" within the meaning of Section 856(h) of the Code, shall be null and void, and the intended transferee will acquire no rights to the Trust Shares. The Company's Declaration of Trust provides that the Company, by notice to the holder thereof, may purchase any or all Trust Shares (the "Excess Shares") that are proposed to be transferred pursuant to a transfer which, if consummated, would result in the intended transferee owning Trust Shares in excess of the Ownership Limit or would otherwise jeopardize the REIT status of the Company. The purchase price of any Excess Shares shall be equal to the fair market value of such Excess Shares on the last trading day immediately preceding the day on which notice of such proposed transfer was sent, as reflected in the closing sales price for the Excess Shares, if then listed on a national securities exchange, or such price for the Excess Shares on the principal exchange if then listed on more than one national securities exchange, or, if the Excess Shares are not then listed on a national securities exchange, the latest bid quotation for the Excess Shares if then traded over-the-counter, or, if no such closing sales prices or quotations are available, the fair market value as determined by the trust managers in good faith. From and after the date fixed for purchase by the trust managers, so long as payment of the purchase price for the Excess Shares to be so redeemed shall have been made or duly provided for, the holder of such Excess Shares to be purchased by the Company shall cease

to be entitled to distributions, voting rights and other benefits with respect to such Excess Shares except the right to payment of the purchase price for the Excess Shares. Any dividend or distribution paid to a proposed transferee on Excess Shares prior to the discovery by the Company that such Excess Shares have been transferred in violation of the provisions of the Company's Declaration of Trust shall be repaid to the Company upon demand. If the foregoing transfer restrictions are determined to be void or invalid by virtue of any legal decision, statute, rule or regulation, then the intended transferee of any Excess Shares may be deemed, at the option of the Company, to have acted as an agent on behalf of the Company in acquiring such Excess Shares and to hold such Excess Shares on behalf of the Company.

All persons who own, directly or by virtue of the attribution provisions of the Code, more than 5% in number or value of the outstanding Trust Shares must give a written notice to the Company containing the information specified in the Company's Declaration of Trust by January 30 of each year. In addition, each shareholder shall, upon demand, be required to disclose to the Company in writing such information with respect to the direct, indirect and constructive ownership of Trust Shares as the trust managers deem necessary to comply with the provisions of the Code applicable to a REIT, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

American Stock Transfer and Trust Company acts as the Company's transfer and dividend paying agent and registrar.

CERTAIN PROVISIONS OF THE TEXAS REIT ACT AND OF THE COMPANY'S DECLARATION OF TRUST AND BYLAWS

The following paragraphs summarize certain provisions of the Texas REIT Act and the Company's Declaration of Trust and Bylaws. The summary does not purport to be complete and reference is made to Texas law and the Company's Declaration of Trust and Bylaws for complete information.

TRUST MANAGERS

The Company's Bylaws provide that the number of trust managers of the Company shall be determined by the trust managers; provided, however, such number shall not be less than three. Any vacancy occurring in the trust managers may be filled by a vote of the majority of the trust managers or by the vote of two-thirds of the outstanding Common Shares of the Company. At least a majority of the trust managers must be natural persons and residents of the State of Texas; however, trust managers need not be shareholders of the Company unless the Company's Declaration of Trust or Bylaws so require. The trust managers of the Company will each serve for a term of one year (except that an individual who has been elected to fill a vacancy will hold office only for the unexpired term of the trust manager he is replacing); provided, however, under the terms of the Company's Declaration of Trust, the trust managers may, at any time and from time to time, provide that in any subsequent election the trust managers shall be divided into classes, so long as the term of office of a trust manager shall be not more than three years and the term of office of at least one class shall expire each year.

INVESTMENT OF TRUST ESTATE

Under the Texas REIT Act, the trust managers or officers have the power to exercise complete discretion with respect to the investment of the trust estate subject to the limitation that seventy-five percent (75%) of the total trust assets shall be invested in real property (including the ownership and co-ownership of land or improvements thereon and leaseholds of land or improvements thereon), interests in mortgages on real property, shares in other real estate investment trusts, cash and cash items (including receivables) and government securities; provided, that (i) the trust managers or officers do not have the power to invest in severed mineral, oil or gas royalty interests and (ii) the trust managers or officers may invest any percentage of the trust estate in a subsidiary corporation or entity, so long as such percentage ownership is not contrary to or inconsistent with the section of the Code (or any successor statute) which relates to or governs real estate investment trusts or the regulations adopted under such sections.

AMENDMENT TO THE DECLARATION OF TRUST

Under the Texas REIT Act, the Company's Declaration of Trust may be amended, from time to time, upon receipt of the affirmative vote of the holders of at least two-thirds of the outstanding Common Shares of the Company. The Company's Declaration of Trust, as amended, may contain only such provisions as may lawfully be contained in the original Declaration of Trust at the time of making such amendment.

TERMINATION OF THE TRUST AND SHAREHOLDER MEETINGS

The Company's Declaration of Trust permits the termination of the Company and the discontinuation of the operations of the Company by the affirmative vote of the holders of at least two-thirds of the outstanding Common Shares of the Company. Upon receiving such vote, the trust managers shall liquidate the Company and distribute the remaining property and assets of the Company among its shareholders in accordance with their respective rights and interests after applying such property to the payment of the liabilities and obligations of the Company. For the annual meetings of shareholders in the years 2003, 2006 and 2009, the trust managers will include in the proxy statement a resolution to be voted on by shareholders which, if approved by the holders of at least two-thirds of the outstanding Common Shares, would require the trust managers to initiate the orderly liquidation of the Company. The Bylaws of the Company provide that the Company shall hold an annual meeting and may hold special meetings of the shareholders which may be called by the trust managers, any officer of the Company or the holders of at least 10% of the outstanding Trust Shares. At each annual meeting of the shareholders, the shareholders will vote on the election of trust managers and on any resolutions properly presented at such annual meetings.

FEDERAL INCOME TAX CONSIDERATIONS

GENERAL

The following discussion of the Federal tax rules governing a REIT and its shareholders provides a summary of the material federal income tax consequences affecting the Company and its shareholders and is based on the Code, judicial decisions, Treasury Regulations, rulings and other administrative interpretations, all of which are subject to change. Because many provisions of the Code have been revised substantially by recent legislation, very few judicial decisions, Treasury Regulations, rulings or other administrative pronouncements have been issued interpreting many of the revisions to the Code. Investors should be aware that Congress continues to consider new tax bills. Accordingly, no assurance can be given that future legislation, administrative regulations, rulings, or interpretations or court decisions will not alter significantly the tax consequences described below or that such changes or decisions will not be retroactive. The Company has not requested, nor does it presently intend to request, a ruling from the Internal Revenue Service (the "Service") with respect to any of the matters discussed below. Because the provisions governing REITs are complex, no attempt is made in the following discussion to discuss in detail all of the possible tax considerations applicable to the Company or its shareholders, including state tax laws. ACCORDINGLY, EACH PROSPECTIVE INVESTOR SHOULD SATISFY HIMSELF AS TO THE INCOME AND OTHER TAX CONSIDERATIONS AND CONSEQUENCES OF HIS PARTICIPATION IN THE COMPANY BY CONSULTING HIS OWN TAX ADVISOR BEFORE PURCHASING COMMON SHARES.

FEDERAL TAXATION OF THE COMPANY -- IN GENERAL

In general, as long as the Company qualifies as a REIT, it will not be subject to Federal income tax on income or capital gain that it distributes in a timely manner to shareholders.

The Company has elected to be taxed as a REIT for Federal income tax purposes commencing with its tax year ended December 31, 1993 and for each subsequent taxable year. Based on the assumptions and representations summarized below, Winstead Sechrest & Minick P.C., counsel to the Company, is of the opinion that the Company has been organized in conformity with the requirements for qualification as a REIT for Federal income tax purposes and that its anticipated investments and its plan of operation (which plan includes complying with all of the REIT requirements described in this Prospectus) will enable it to continue

to so qualify. Unlike a tax ruling (which will not be sought), an opinion of counsel, which is based on counsel's review and analysis of existing law, is not binding on the Service. Accordingly, no assurance can be given that the Service would not successfully challenge the tax status of the Company as a real estate investment trust.

If the Service successfully challenged the tax status of the Company as a REIT, the Company's income and capital gains would become subject to Federal income tax (including any applicable minimum tax) at corporate rates. Consequently, the amount of after tax earnings available for distribution to shareholders would decrease substantially. In addition, "net capital gain" (net long-term capital gain in excess of net short-term capital loss) distributed by the Company would be taxed as ordinary dividends to shareholders rather than as long-term capital gain. The Company would not be eligible to re-elect REIT status under the Code until the fifth taxable year beginning after the taxable year in which it failed so to qualify, unless its failure to qualify was due to reasonable cause and not to willful neglect and certain other requirements were satisfied. Also, immediately prior to requalification as a REIT under the Code, the Company could be taxed on any unrealized appreciation in its assets.

Qualification of the Company as a REIT for Federal tax purposes will depend on its continuing to meet various requirements governing, among other things, the ownership of its Common Shares, the nature of its assets, the sources of its income, and the amount of its distributions to shareholders. Although the trust managers and the Investment Manager intend to cause the Company to operate in a manner that will enable it to comply with such requirements, there can be no certainty that such intention will be realized. In addition, because the relevant laws may change, compliance with one or more of the REIT requirements may be impossible or impractical.

REQUIREMENTS FOR QUALIFICATION AS A REAL ESTATE INVESTMENT TRUST

Although the Company must meet certain qualifications to be a real estate investment trust under the Texas REIT Act (see "Certain Provisions of the Texas REIT Act and of the Company's Declaration of Trust and Bylaws"), the Company must independently qualify as a REIT under the Code. To qualify as a REIT under the Code, the Company must properly elect to be a real estate investment trust and must satisfy various requirements in each taxable year including, among others, the following:

1. Share Ownership. (a) The beneficial ownership of Common Shares of the Company must be held by a minimum of 100 persons for at least 335 days of a taxable year consisting of 12 months (or a proportionate part of a taxable year consisting of less than 12 full months), and (b) Common Shares representing no more than 50% (by value) of the Company may be owned (directly or under rules of constructive ownership prescribed by the Code) by five or fewer individuals at any time during the last half of a taxable year (the "50% Shareholder Test"). Certain tax-exempt entities are treated as individuals for purposes of the 50% Shareholder Test. In addition, the applicable constructive ownership rules provide, among other things, that Common Shares held by a corporation, partnership, trust or estate will be regarded as being held proportionately by its shareholders, partners or beneficiaries, as the case may be, and Common Shares owned by certain persons may be regarded as being owned by certain members of their families. Common Shares held by a qualified pension plan will be treated as held proportionately by its beneficiaries; however, Common Shares held by a qualified pension plan will be treated as held by one individual if persons related to the plan (such as the employer, employees, officers, or directors) own in the aggregate more than 5% by value of the Common Shares and the Company has accumulated earnings and profits attributable to any period for which it did not qualify as a REIT.

To assure continued compliance with the 50% Shareholder Test, the Company's Declaration of Trust prohibits any individual investor from acquiring an interest in the Company such that the individual would own (or be deemed under the applicable rules of constructive ownership to own) more than 9.8% of the outstanding Common Shares, unless the trust managers (including a majority of the Independent Trust Managers) are provided evidence satisfactory to them in their sole discretion that the qualification of the Company as a REIT will not be jeopardized.

Treasury Regulations require the Company to maintain records of the actual and constructive beneficial ownership of its Common Shares. In accordance with those regulations, the Company must

and will demand from shareholders written statements concerning the actual and constructive beneficial ownership of Common Shares. Any shareholder who does not provide the Company with required information concerning share ownership will be required to include certain information relating thereto with his income tax return.

2. Asset Diversification. At the close of each quarter of the taxable year, at least 75% of the value of the Company's total assets must be represented by "real estate assets" (which category includes interests in real property, mortgages on real property and certain temporary investments), cash, cash items and U.S. Government securities (the "75% Asset Test"). In addition, at those times, the remaining 25% of the value of the Company's total assets may not consist, in whole or in part, of securities in respect of any one issuer in an amount greater in value than 5% of the value of the Company's total assets or more than 10% of the outstanding voting securities of such issuer (the "25% Asset Test"). If the Company is in violation of the foregoing requirements (due to a discrepancy between the value of its investments and such requirements) after the acquisition of any security or property, then the Company will be treated as not violating the requirements if it cures the violation within 30 days of the close of the quarter.

While the Investment Manager intends to manage the Company to meet the 75% Asset Test and 25% Asset Test, no assurance can be given that the Company will be able to do so.

The assets of the Company's wholly-owned subsidiaries will be attributed directly to the Company for purposes of the asset diversification rules.

3. Sources of Income. The Company must satisfy three distinct income-based tests for each taxable year: the "75% Income Test," the "95% Income Test" and the "30% Income Test."

The 75% Income Test requires that at least 75% of the Company's gross income (other than from certain "prohibited transactions") in each taxable year consist of certain types of income identified in the Code, including qualifying rents from real property; qualifying interest on obligations secured by mortgages on real property or interests in real property; gain from the sale or other disposition of real property (including interests in real property and mortgages on real property) held for investment and not primarily for sale to customers in the ordinary course of business; income and gain from certain properties acquired by the Company through foreclosure; and income earned from certain qualifying types of temporary investments. Income earned from qualifying temporary investments means income that is (i) attributable to stock or debt instruments, (ii) attributable to the temporary investment of capital received by the Company from the issuance of shares of beneficial interests or from a public offering of debt securities that have a maturity of at least five years, and (iii) received or accrued within one year from the date the Company receives such capital. Interest income and gain realized from the disposition of loans which are secured solely by real property will constitute qualifying income for purposes of the 75% Income Test, assuming that such interest income is not excluded from the calculation of interest for purposes of the 75% Income Test by reason of such interest being dependent on income or profits as described in Code Section 856(f) and assuming that any such loan which is disposed of is held for investment and not primarily for sale to customers in the ordinary course of a trade or business.

Under the 95% Income Test, at least 95% of the Company's gross income (other than from certain "prohibited transactions") in each taxable year must consist of income which qualifies under the 75% Income Test as well as dividends and interest from any other source, gain from the sale or other disposition of stock and other securities which is not dealer property, any payment to the Company under an interest rate swap or cap agreement entered into as a hedge against variable rate indebtedness incurred to acquire or carry real estate assets, and any gain from the disposition of such an agreement.

Finally, under the 30% Income Test, the Company must limit its realization of certain types of income so that, in each taxable year, less than 30% of its gross income is derived from sale or other disposition of (a) stock or securities held for less than one year (which includes an interest rate swap or cap agreement entered into by the Company as a hedge against any variable rate indebtedness incurred to acquire or carry real estate assets), (b) with certain limited exceptions, real property (including interests

in and mortgages on real property) held for less than four years and (c) property in a transaction treated as a "prohibited transaction" under the Code.

Were the Company to experience prepayments or restructurings of loans substantially in excess of the amount of prepayments or restructurings currently expected, the Company might be unable to satisfy the 30% Income Test. The Investment Manager will monitor compliance with this test. Were prepayments or restructurings to exceed expected levels, the Company's ability to dispose of other loans might be limited. Moreover, any short-term capital gains realized upon the disposition of temporary investments of working capital would be subject to the limitations imposed by the 30% Income Test.

If the Company fails to meet the requirements of either or both the 75% Income Test or the 95% Income Test in a taxable year but otherwise meets the applicable requirements for qualification as a REIT, it may nevertheless continue to qualify under the Code as a REIT if certain conditions are met. The conditions that must be satisfied include (i) disclosure of each item of income in the REIT's tax return, (ii) any incorrect information regarding each item of income must not be due to fraud, and (iii) the failure to satisfy the tests must be due to reasonable cause and not due to willful neglect. While satisfaction of the conditions would prevent the Company from losing its tax status as a REIT, the Company generally would be liable for a special tax with respect to the amount of the Company's income which is nonqualifying for purposes of the 75% Income Test or the 95% Income Test. The Code does not provide for any mitigation provisions with respect to the 30% Income Test. Accordingly, if the Company failed to meet the 30% Income Test, its tax status as a REIT would terminate automatically.

4. Distribution Requirements. With respect to each taxable year, the Company must distribute to shareholders an amount at least equal to the sum of 95% of its "REIT taxable income" (as that term is defined under Section 857(b) of the Code), excluding any net capital gain ("net investment income"), and 95% of its net income from "foreclosure property" in excess of the Federal income tax from such income, minus certain items of noncash income. As noted in "Dividends and Distributions Policy," the Company distributes substantially all of its net investment income annually. The Company likewise distributes annually substantially all of its realized net capital gains. The Service may waive the distribution requirements for any tax year if the Company establishes that it was unable to meet such requirements by reason of distributions previously made to meet the requirement of section 4981 of the Code (relating to the 4% Federal excise tax on undistributed income discussed below).

Unlike net investment income, the Company's net capital gain need not be distributed in order for the Company to maintain its status under the Code as a REIT; however, the Company will be taxable on any net capital gain and net investment income which it fails to distribute in a timely manner under Code rules.

While the Company expects to meet its distribution requirements, its ability to make distributions may be impaired if it has insufficient cash flow or otherwise has excessive noncash income or nondeductible expenditures. Furthermore, the distribution requirement may be determined not to have been met in a given year by reason of the Service later successfully challenging the deductibility of a Company expenditure. In such event, however, it may be possible to cure a failure to meet the distribution requirement with a "deficiency dividend," but if the Company uses that procedure, it may incur substantial tax penalties and interest.

The Company will be subject to a nondeductible 4% Federal excise tax with respect to undistributed ordinary income and capital gain net income unless it also meets a calendar year distribution requirement. To meet this requirement, the Company must, in general, distribute with respect to each calendar year an amount equal to the sum of (a) 85% of its ordinary income (adjusted under the Code for various items), (b) 95% of its capital gains in excess of its capital losses (subject to certain adjustments) and (c) any ordinary income and capital gain net income not distributed in prior calendar years. The Company intends to make distributions to shareholders so that it will not incur this tax but, as noted above, various situations could make it impractical to meet the prescribed distribution schedule.

The Company is authorized to issue Preferred Shares. Should the Company do so, and should the Company distribute a capital gain dividend while Preferred Shares are outstanding, it may be required to designate a portion of dividends entitled to be received by holders of the Preferred Shares as capital gain dividends, thereby reducing the portion of total distributions paid to holders of the Company's Common Shares which may be characterized as capital gains dividends.

FEDERAL TAXATION OF THE COMPANY -- SPECIFIC ITEMS

Acquisitions of Loans at a Discount. Some of the loans (with a fixed maturity date of more than one year from the date of issuance) that the Company may acquire will be treated as debt securities that are issued originally at a discount. Generally, original issue discount ("OID") is treated like interest income and would be included in the gross income of the Company over the term of the loan, even though payment of that amount may not be received until a later time, usually when the loan matures. Such income may adversely affect the Company's ability to meet its distribution requirements.

It is likely that many of the loans (with a fixed maturity date of more than one year from the date of issuance) that the Company intends to acquire from certain governmental agencies will be treated as having market discount. Generally, gain recognized on the disposition of, and any partial payment of principal on, a loan having market discount is treated as interest income to the extent the gain, or principal payment, does not exceed the "accrued market discount" on the obligation. Market discount generally accrues in equal daily installments. The Company may make one or more tax-related elections relating to market discount, which could affect the character and timing of recognition of income, including requiring market discount to be included in the Company's gross income on a ratable daily basis or a constant interest rate basis.

The Company generally will be required to distribute dividends to shareholders representing discount income that is currently includable in the Company's gross income, even though cash representing such income may not yet have been received by the Company. Cash to pay such dividends may have to be obtained from the sale of assets held by the Company or through borrowing or the Company may have to make a taxable stock dividend.

Dispositions of Assets. The Company may realize a gain or loss on the disposition of an asset (such as a loan) that it owns. The gain or loss may be capital or ordinary in character, depending upon a number of factors and the tax rules governing the type of disposition involved.

If the Company were deemed to be holding property (such as real property or loans) primarily for sale to customers in the ordinary course of business (i.e., as a "dealer"), then (a) any gains recognized by the Company upon the disposition of such property could be subject to a 100% tax on prohibited transactions and (b) depending on the composition of the Company's total gross income, the Company could fail the 30% Income Test or the 75% Income Test for qualification as a real estate investment trust.

Under existing law, whether property is held primarily for sale to customers in the ordinary course of business must be determined from all the facts and circumstances surrounding the particular property and sale in question. The Company intends to hold all property for investment purposes and to make occasional dispositions which are, in the opinion of the trust managers and the Investment Manager, consistent with the Company's investment objectives and in compliance with all the rules discussed above governing the qualification of the Company for REIT status under the Code. Accordingly, the Company does not expect to be treated as a "dealer" with respect to any of its assets. No assurance, however, can be given that the Service will not take a contrary position.

TAXATION OF SHAREHOLDERS

Distributions by the Company of net investment income will be taxable to shareholders as ordinary income to the extent of the current or accumulated earnings and profits of the Company. Distributions of net capital gain, if any, designated by the Company as capital gain dividends generally will be taxable to shareholders as long-term capital gain, regardless of the length of time the Common Shares have been held by the shareholders. However, corporate shareholders may be required to treat up to 20% of certain capital gain

dividends as ordinary income pursuant to Section 291 of the Code. All distributions are taxable, at least to the extent of the current or accumulated earnings and profits of the Company, whether received in cash or invested in additional Common Shares. Dividends declared by the Company in October, November or December payable to shareholders of record on a date in such a month and paid during the following January will be treated as having been received by shareholders on December 31 in the year in which such dividends were declared. Income (including dividends) from the Company normally will be characterized as "portfolio" income (as opposed to "passive" income) for purposes of the tax rules governing "passive" activities; accordingly, passive losses of the shareholder may not be used to offset income derived by the shareholder from the Company.

None of the distributions from the Company (as a REIT) received by corporate shareholders, whether characterized as ordinary income or capital gain, will qualify for the dividends received deduction generally available to corporations.

The Company may be required to withhold and remit to the Service 31% of the dividends paid to any shareholder who (a) fails to furnish the Company with a properly certified taxpayer identification number, (b) has under reported dividend or interest income to the Service or (c) fails to certify to the Company that he is not subject to backup withholding. Any amount paid as backup withholding will be creditable against the shareholder income tax liability. The Company will report to its shareholders and the Service the amount of dividends paid during each calendar year and the amount of any tax withheld.

In general, any gain or loss realized upon a taxable disposition of Common Shares of the Company or upon receipt of a liquidating distribution by a shareholder who is not a dealer in securities will be treated as long-term capital gain or loss if the Common Shares have been held for more than one year and as short-term capital gain or loss if the Common Shares have been held for one year or less. If, however, the shareholder receives any capital gain dividends with respect to Common Shares held six months or less, any loss realized upon a taxable disposition of such Common Shares shall, to the extent of such capital gain dividends, be treated as a long-term capital loss. All or a portion of any loss realized upon a taxable disposition of Common Shares of the Company may be disallowed if other Common Shares of the Company are purchased (under a dividend reinvestment plan or otherwise) within 30 days before or after the disposition.

TAXATION OF TAX-EXEMPT SHAREHOLDERS

Except as noted below, based upon a revenue ruling issued by the Service, dividend distributions by the Company to a shareholder that is a tax-exempt entity should not constitute "unrelated business taxable income" ("UBTI"), provided that the tax-exempt entity has not financed the acquisition of its Common Shares with "acquisition indebtedness" within the meaning of the Code and the Common Shares are not otherwise used in an unrelated trade or business of the tax-exempt entity. However, if a tax-exempt entity borrows money to purchase its Common Shares, a portion of its income from the Company will constitute UBTI pursuant to the "debt-financed property" rules of the Code. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal service organizations that are exempt from taxation under Code Sections 501(c)(7), (9), (17) and (20), respectively, are subject to different UBTI rules, which generally will require them to characterize distributions from the Company as UBTI. Also, it should be noted that dividend distributions by a REIT to an exempt organization that is a private foundation should constitute investment income for purposes of the excise tax on net investment income of private foundations imposed by Section 4940 of the Code. For tax years beginning after 1993, if an employee trust qualified under Code Section 401(a)(a "qualified trust") owns more than 10% by value of the Common Shares in the Company at any time during a tax year, then a portion of the dividends paid by the Company to such trust may be treated as UBTI, but only if (i) the Company would not have qualified as a REIT but for the provisions of the Code which look through such a qualified trust for purposes of determining ownership of a REIT and (ii) at least one qualified trust holds more than 25% (by value) of the Common Shares in the Company or one or more qualified trusts (each of which holds more than 10% of the Common Shares) hold in the aggregate more than 50% (by value) of the Common Shares.

Because of the complexity and variations of the UBTI rules, tax-exempt entities should consult their own tax advisors.

Tax exempt shareholders should also note that the Company might be regarded as a "taxable mortgage pool" under the Code. See "Other Taxation" below.

TAXATION OF FOREIGN SHAREHOLDERS

The rules governing United States Federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign shareholders (collectively, "non-U.S. shareholders") are complex and no attempt will be made herein to provide more than a summary of such rules. Prospective non-U.S. shareholders should consult with their own tax advisors to determine the impact of Federal, state and local income tax laws with regard to an investment in Common Shares, including any reporting requirements.

Distributions that are not attributable to gain from sales or exchanges by the Company of "United States Real Property Interests" and not designated by the Company as capital gain dividends will be treated as dividends of ordinary income to the extent that they are made out of current or accumulated earnings and profits of the Company. Generally, such distributions will be subject to a U.S. withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from the investment in the Common Shares is treated as effectively connected with the non-U.S. shareholder's conduct of a United States trade or business, the non-U.S. shareholder generally will be subject to a tax at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such dividends (and may also be subject to the 30% branch profits tax in the case of a shareholder that is a foreign corporation). The Company expects to withhold United States income tax at the rate of 30% on the gross amount of any such dividends made to a non-U.S. shareholder unless (a) a lower treaty rate applies and the non-U.S. shareholder files an IRS Form 1001 or (b) the non-U.S. shareholder files an IRS Form 4224 with the Company claiming that the distribution is effectively connected income. Such distributions in excess of current and accumulated earnings and profits of the Company will not be taxable to a shareholder to the extent that they do not exceed the adjusted basis of the shareholder's Common Shares, but rather will reduce the adjusted basis of such Common Shares. To the extent that such distributions exceed the adjusted basis of a non-U.S. shareholder's Common Shares, they will give rise to tax liability if the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or disposition of his Common Shares in the Company, as described below. If it cannot be determined at the time a distribution is made whether or not such distribution will be in excess of current and accumulated earnings and profits, the distributions will be subject to withholding at the same rate as dividends. However, amounts thus withheld are refundable if it subsequently is determined that such distribution was, in fact, in excess of current and accumulated earnings and profits of the Company.

For any year in which the Company qualifies as a real estate investment trust, distributions that are attributable to gain from sales or exchanges by the Company of "United States real property interests" will be taxed to a non-U.S. shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980, as amended ("FIRPTA"). Under FIRPTA, these distributions are taxed to a non-U.S. shareholder as if such gain were effectively connected with a United States business. Non-U.S. shareholders would thus be taxed at the normal capital gain rates applicable to U.S. shareholders (subject to applicable alternative minimum tax). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate shareholder not entitled to treaty exemption. The Company is required by applicable Treasury Regulations to withhold 35% of any distribution that could be designated by the Company as a capital gain dividend to the extent that such capital gain dividends are attributable to the sale or exchange by the Company of United States real property interests. This amount is creditable against the non-U.S. shareholder's Federal tax liability. Fixed rate mortgage loans will not normally be classified as "United States real property interests."

Gain recognized by a non-U.S. shareholder upon a sale of Common Shares generally will not be taxed under FIRPTA if the Company is a "domestically controlled real estate investment trust," defined generally as a real estate investment trust in which at all times during a specified testing period less than 50% in value of

the Common Shares were held directly or indirectly by non-U.S. persons or if the Company is not classified as a "United States Real Property Holding Corporation." Additionally, gain recognized by a non-U.S. shareholder upon a sale of Common Shares generally will not be taxed under FIRPTA unless the shareholder beneficially owns more than 5% of the total fair market value of the Common Shares at any time during the shorter of the five-year period ending on the date of disposition or the period during which the shareholder held the Common Shares. Gain not subject to FIRPTA will be taxable to a non-U.S. shareholder if (a) investment in the Common Shares is effectively connected with the non-U.S. shareholder's United States trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain or (b) the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year, in which case the nonresident alien individual will be subject to a 30% tax on his U.S. source capital gains. If the gain on the sale of Common Shares becomes subject to taxation under FIRPTA, the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals).

Subject to the provisions of any tax treaty that may exist between the United States and the country in which the foreign holder is domiciled at the time of his death, an individual foreign shareholder who owns Common Shares at the time of his death will have the Common Shares subject to United States Federal estate tax. The United States Federal estate tax will be assessed on the fair market value of such Common Shares at the time of the foreign holder's death.

OTHER TAXATION

Under legislation which became effective in 1992, certain entities which employ leverage and whose assets consist principally of real estate mortgages may be classified as taxable mortgage pools. To date, the Service has issued practically no guidance on the classification of REITs as taxable mortgage pools and it is unclear whether the Company would ever be classified as one. If it were, pursuant to regulations yet to be promulgated by the Service, it is possible that certain distributions by the Company could not be offset by a shareholder's net operating losses and that such distributions would be treated as UBTI in the hands of a tax-exempt shareholder. It is not known when, if at all, regulations on this subject will be issued.

Tax treatment of the Company and its shareholders under tax laws other than those governing Federal income tax may differ substantially from the Federal income tax treatment described in this summary. CONSEQUENTLY, EACH PROSPECTIVE SHAREHOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISOR WITH REGARD TO THE STATE, LOCAL AND OTHER TAX CONSEQUENCES OF AN INVESTMENT IN THE COMPANY.

ERISA CONSIDERATIONS

Because the Common Shares should qualify as a "publicly-offered security," plans subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA Plans"), Individual Retirement Accounts ("IRAs") and H.R.10 Plans ("Keogh Plans") may purchase Common Shares and treat such Common Shares, and not the Company's assets, as plan assets. A fiduciary of an ERISA Plan should consider the fiduciary standards under ERISA in the context of the plan's particular circumstances before authorizing an investment of a portion of such plan's assets in Common Shares. Accordingly, among other factors, such fiduciary should consider (i) whether the plan's aggregate investments (including such an investment) satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA, (ii) whether the investment is in accordance with ERISA, the Code and the documents and instruments governing the plan (as required by Section 404(a)(1)(D) of ERISA), and (iii) whether the investment is prudent, considering the role such an investment plays in the plan's portfolio, the nature of the Company's business, the possible limitations on the marketability of Common Shares and the anticipated earnings of the Company. Investors proposing to purchase Common Shares for their IRAs and Keogh Plans should consider that an IRA and a Keogh Plan may only make investments that are authorized by the appropriate governing instruments.

Moreover, Keogh Plans that cover common law employees are also subject to the ERISA fiduciary standards described above.

Any ERISA Plan or Keogh Plan covering common law employees should also consider prohibitions in ERISA relating to improper delegation of control over or responsibility for "plan assets," prohibitions in ERISA and in the Code relating to an ERISA Plan's engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the plan, and other provisions in ERISA dealing with "plan assets." The Code provisions relating to a plan's engaging in certain transactions involving "plan assets" with persons who are "disqualified persons" under the Code with respect to the plan also apply to IRAs and all Keogh Plans.

If the assets of the Company were deemed to be "plan assets" of plans that are holders of Common Shares, Subtitle A and Parts 1 and 4 of Subtitle B of Title I of ERISA (the prudence and fiduciary standards) with respect to ERISA Plans and Keogh Plans covering common law employees, and Section 4975 of the Code (the prohibitions on transactions involving disqualified persons) with respect to ERISA Plans, IRAs and Keogh Plans, would extend to transactions entered into and decisions made by the Company's management. Furthermore, the Company's management would be deemed to be fiduciaries with respect to such plans.

ERISA and the Code do not define "plan assets." On November 13, 1986, the U.S. Department of Labor published a final regulation, amended on December 31, 1986 and effective March 13, 1987, relating to the definition of "plan assets," under which the assets of an entity in which employee benefits plans, including ERISA Plans, IRAs and Keogh Plans, acquire interests would be deemed "plan assets" under certain circumstances (the "Regulation"). The Regulation generally provides that when a plan acquires an equity interest in an entity which is a "publicly-offered security," the plan's assets include only the acquired equity interest and not any interest in the underlying assets of the entity. The Regulation defines a "publicly-offered security" as a security that is "widely held," freely transferable and registered pursuant to certain provisions of the Federal securities laws. The Company believes that the Common Shares offered hereby will be a "publicly-offered security," and thus that the Company's assets will not be deemed to be assets of any employee benefit plan that is a holder of Common Shares.

FIDUCIARIES OF EMPLOYEE BENEFIT PLANS THAT ARE PROSPECTIVE SHAREHOLDERS SHOULD CONSULT WITH THEIR OWN COUNSEL AND FINANCIAL ADVISORS TO DETERMINE THE CONSEQUENCES UNDER ERISA OF AN INVESTMENT IN THE COMPANY, AND TO DETERMINE THE PROPRIETY OF SUCH AN INVESTMENT IN LIGHT OF THE CIRCUMSTANCES OF THAT PARTICULAR PLAN AND CURRENT APPLICABLE LAW.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement between the Company and Oppenheimer & Co., Inc., J.C. Bradford & Co. and Fahnestock & Co. Inc., as the Representatives of the Underwriters, each of the Underwriters named below has severally agreed to purchase from the Company, and the Company has agreed to sell to the Underwriters, the respective number of Common Shares set forth opposite its name below:

UNDERWRITER	NUMBER OF COMMON SHARES
Oppenheimer & Co., Inc.	
J.C. Bradford & Co.	
Fahnestock & Co. Inc.	
Total	2,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters thereunder are subject to approval of certain legal matters by counsel, and to various other conditions. The nature of the Underwriters' obligations is such that they are committed to purchase and pay for all of the above Common Shares if any are purchased.

The Underwriters propose to offer the Common Shares directly to the public at the public offering price set forth on the cover page of this Prospectus, and at such price less a concession not in excess of $ per share to certain other dealers who are members of the National Association of Securities Dealers, Inc. The Underwriters may allow, and such dealers may re-allow, concessions not in excess of $ per share to certain other dealers. The offering price and other selling terms may be changed by the Underwriters.

The Underwriters have been granted a 30-day over-allotment option to purchase up to an aggregate of 300,000 additional Common Shares, exercisable at the public offering price less the underwriting discount. If the Underwriters exercise such over-allotment option, then each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof as the number of Common Shares to be purchased by it as shown in the above table bears to the 2,000,000 Common Shares offered hereby. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the Common Shares offered hereby. The Representatives of the Underwriters have informed the Company that they do not expect the Underwriters to confirm sales of Common Shares offered hereby to accounts over which they exercise discretionary authority.

The Company has agreed to indemnify the Underwriters against certain liabilities, losses and expenses including liabilities under the Securities Act of 1933, or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Company is concurrently, by means of this Prospectus, offering 60,000 Common Shares directly to certain trust managers and officers of the Company, at a price equal to $ per share less underwriting discounts and commissions payable with respect to the Common Shares offered to the public. The sale of Common Shares in the Direct Offering is contingent on the purchase of Common Shares by the Underwriters

in the Underwritten Offering. There is no minimum number of Common Shares to be purchased in the Direct Offering.

The Company has agreed that it will not offer, sell, grant any option (other than pursuant to the Share Option Plans) for the sale of, or otherwise dispose of any shares or any securities convertible into or exchangeable for, or rights to purchase or acquire Common Shares, for a period of 180 days after the date hereof without the prior written consent of Oppenheimer & Co., Inc. In addition, the officers and trust managers of the Company have agreed with the Underwriters not to offer, sell or otherwise dispose of any Common Shares for a period of 180 days after the date hereof without the prior written consent of Oppenheimer & Co., Inc.

LEGAL MATTERS

The legality of the Common Shares offered hereby will be passed upon for the Company by Winstead Sechrest & Minick P.C., Dallas, Texas. Certain legal matters will be passed on for the Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York. Simpson Thacher & Bartlett will rely as to all matters of Texas law on the opinion of Winstead Sechrest & Minick P.C.

EXPERTS

The financial statements of the Company as of and for the period from June 4, 1993 (date of inception) to December 31, 1993 and for each of the two years in the period ended December 31, 1995, have been audited by Coopers & Lybrand L.L.P. as stated in its report with respect thereto and have been so included in reliance upon the report of such firm and upon its authority as an expert in accounting and auditing.

GLOSSARY

The following terms as used in this Prospectus are briefly defined below:

Annual Fee	For each calendar year during which the Company's annual Return on Average Common Equity Capital after deduction of the Base Fee (the "Actual Return") exceeds 6.69% (the "Minimum Return"), the Company will pay the Investment Manager an additional advisory fee equal to the product determined by multiplying the Average Annual Value of All Invested Assets by a percentage equal to the difference between the Actual Return and the Minimum Return, up to a maximum of one percent (1%) per annum. The Annual Fee will be earned only to the extent that the annual Return on Average Common Equity Capital after deduction of the Base Fee and Annual Fee is at least equal to the Minimum Return.
Average Annual Value of All Assets	The book value of total 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	The book value of 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 Common Equity Capital	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	The book value of total assets 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	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.
Base Fee	Quarterly in arrears, a fee consisting of a quarterly servicing fee of .125% of the Average Quarterly Value of All Assets and a quarterly advisory fee of .25% of the Average Quarterly Value of All Invested Assets.
Common Equity Capital	The sum of the stated capital plus the additional paid-in capital for the Common Shares.
Dividend Reinvestment Plan	The plan adopted by the Company pursuant to which dividends and other Plan cash distributions are automatically invested by the Plan Agent for the account of a shareholder electing to participate in the Plan in additional newly issued Common Shares of the Company.
GAAP	Generally accepted accounting principles.
Independent Trust Managers	The trust managers of the Company who are not affiliated with PMC Capital or its subsidiaries.
Invested Assets	The Primary Investments plus the Other Investments.

Other Investments.....	The Company's investments in (i) loans which are current at the time of the Company's commitment to purchase, acquired from certain governmental agencies and other sellers, which meet the Company's underwriting criteria, (ii) other commercial loans secured by real estate, and (iii) real estate.
Primary Investments.....	Loans to small businesses secured by the first liens on real estate, originated by the Company to borrowers who meet the Company's underwriting criteria.
Retained Earnings.....	The sum of cumulative net income and cumulative dividends paid.
Return on Average Common Equity Capital.....	Net income of the Company as determined in accordance with GAAP, less preferred dividends, if any, divided by the Average Common Equity Capital.

PMC COMMERCIAL TRUST

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
(THE FINANCIAL DATA AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996 IS UNAUDITED)

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying balance sheets of PMC Commercial Trust as of December 31, 1994 and 1995, and the related statements of income, beneficiaries' equity, and cash flows for the period June 4, 1993 (date of inception) to December 31, 1993 and for each of the two years in the period ended December 31, 1995. 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 in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PMC Commercial Trust as of December 31, 1994 and 1995, the results of its operations and its cash flows for the period June 4, 1993 (date of inception) to December 31, 1993 and for each of the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
March 20, 1996

PMC COMMERCIAL TRUST

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 1994	DECEMBER 31, 1995	MARCH 31, 1996 (UNAUDITED)
Investments:			
Loans receivable, net	$32,693,752	$59,129,536	$62,957,636
Cash equivalents	18,809,314	173,679	16,830,812
Restricted investments	--	--	2,411,276
Total investments	51,503,066	59,303,215	82,199,724
Other assets:			
Cash	40,789	33,504	173,946
Interest receivable	208,525	410,073	384,055
Deferred borrowing costs	--	--	357,754
Other assets, net	32,141	50,483	50,000
Total other assets	281,455	494,060	965,755
Total assets	$51,784,521	$59,797,275	$83,165,479

LIABILITIES AND BENEFICIARIES' EQUITY

Liabilities:			
Notes payable	$ --	$ 7,920,000	$29,500,000
Dividends payable	1,033,659	1,518,896	1,310,166
Accounts payable	--	14,175	5,859
Interest payable	--	56,267	227,921
Borrower advances	2,346,162	579,133	1,106,265
Unearned commitment fees	560,728	599,978	816,611
Due to affiliates	184,523	844,786	1,043,627
Unearned construction monitoring fees	219,048	81,008	154,061
Total liabilities	4,344,120	11,614,243	34,164,510
Commitments and contingencies (Note 9)			
Beneficiaries' equity:			
Common shares of beneficial interest; authorized 100,000,000 shares of $0.01 par value; 3,444,530, 3,491,716 and 3,540,988 shares issued and outstanding at December 31, 1994, December 31, 1995 and March 31, 1996, respectively	34,445	34,917	35,410
Additional paid-in capital	47,704,383	48,326,337	49,109,477
Cumulative net income	3,215,294	8,111,318	9,455,788
Cumulative dividends	(3,513,721)	(8,289,540)	(9,599,706)
Total beneficiaries' equity	47,440,401	48,183,032	49,000,969
Total liabilities and beneficiaries' equity	$51,784,521	$59,797,275	$83,165,479
Net asset value per share	$ 13.77	$ 13.80	$ 13.84

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

PMC COMMERCIAL TRUST

CONSOLIDATED STATEMENTS OF INCOME

	JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Revenues:					
Interest income -- loans	$ 3,039	$2,289,355	$5,610,391	$1,106,929	$1,795,603
Interest and dividends -- other investments	12,678	1,221,768	324,779	230,617	54,348
Other income	--	179,649	295,245	84,002	56,835
Total revenues	15,717	3,690,772	6,230,415	1,421,548	1,906,786
Expenses:					
Advisory and servicing fees, net	--	357,311	945,720	160,730	276,092
Legal and accounting fees	--	32,628	70,940	26,143	9,190
General and administrative	565	63,543	96,028	33,116	25,265
Interest	--	37,148	221,703	16,435	251,769
Total expenses	565	490,630	1,334,391	236,424	562,316
Net income	$15,152	$3,200,142	$4,896,024	$1,185,124	$1,344,470
Weighted average shares outstanding	3,099,530	3,430,009	3,451,091	3,444,530	3,519,612
Net income per share	$ 0.01	$ 0.93	$ 1.42	$ 0.34	$ 0.38

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

PMC COMMERCIAL TRUST

CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY
(THE FINANCIAL DATA AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 1996 IS UNAUDITED)

	COMMON SHARES OF BENEFICIAL INTEREST	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	CUMULATIVE NET INCOME	CUMULATIVE DIVIDENDS	TOTAL BENEFICIARIES' EQUITY
Balances, June 4, 1993 (Inception)	--	$ --	$ --	$ --	$ --	$ --
Shares issued upon formation	200	2	2,788	--	--	2,790
Initial shares sold to public	3,000,000	30,000	44,970,000	--	--	45,000,000
Initial shares sold through direct offering	99,330	993	1,384,660	--	--	1,385,653
Issuance costs	--	--	(3,462,365)	--	--	(3,462,365)
Net income	--	--	--	15,152	--	15,152
Balances, December 31, 1993	3,099,530	30,995	42,895,083	15,152	--	42,941,230
Additional shares sold through initial public offering	345,000	3,450	5,171,550	--	--	5,175,000
Issuance costs	--	--	(362,250)	--	--	(362,250)
Dividends ($1.02 per share)	--	--	--	--	(3,513,721)	(3,513,721)
Net income	--	--	--	3,200,142	--	3,200,142
Balances, December 31, 1994	3,444,530	34,445	47,704,383	3,215,294	(3,513,721)	47,440,401
Shares issued through exercise of stock options	12,996	130	122,836	--	--	122,966
Shares issued through dividend reinvestment plan	34,190	342	499,118	--	--	499,460
Dividends ($1.38 per share)	--	--	--	--	(4,775,819)	(4,775,819)
Net income	--	--	--	4,896,024	--	4,896,024
Balances, December 31, 1995	3,491,716	34,917	48,326,337	8,111,318	(8,289,540)	48,183,032
Shares issued through exercise of stock options	1,675	17	19,874	--	--	19,891
Shares issued through dividend reinvestment plan	47,597	476	763,266	--	--	763,742
Dividends ($0.37 per share)	--	--	--	--	(1,310,166)	(1,310,166)
Net income	--	--	--	1,344,470	--	1,344,470
Balances, March 31, 1996 (unaudited)	3,540,988	$35,410	$49,109,477	$9,455,788	$(9,599,706)	$ 49,000,969

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

PMC COMMERCIAL TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31, 1993	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	THREE MONTHS ENDED MARCH 31, 1995 (UNAUDITED)	THREE MONTHS ENDED MARCH 31, 1996
Cash flows from operating activities:					
Net income	$ 15,152	$ 3,200,142	$ 4,896,024	$ 1,185,124	$ 1,344,470
Adjustments to reconcile net income to net cash provided by operating activities:					
Accretion of:					
Government securities	--	(80,384)	--	--	--
Discount on purchased loans	--	(22,094)	(26,460)	(6,347)	(7,074)
Deferred commitment fees	--	(166,200)	(196,951)	(55,968)	(51,151)
Construction monitoring fees	--	(39,946)	(146,054)	(32,342)	(29,451)
Amortization of organization costs	--	8,040	8,040	2,010	2,011
Commitment fees collected	97,010	1,295,419	546,211	107,466	261,512
Construction monitoring fees collected, net	--	258,994	8,014	(27,449)	102,504
Changes in operating assets and liabilities:					
Accrued interest receivable	(40,181)	(208,525)	(201,548)	(53,493)	26,018
Other assets	--	--	(26,382)	--	(359,282)
Interest payable	--	--	56,267	--	171,654
Borrower advances	--	2,346,162	(1,767,029)	(74,657)	527,132
Due to affiliates	24,557	159,966	660,263	61,440	198,841
Accounts payable	187,115	(187,655)	14,175	--	(8,316)
Net cash provided by operating activities	283,653	6,563,919	3,824,570	1,105,784	2,178,868
Cash flows from investing activities:					
Loans funded/purchased	(3,215,660)	(34,982,484)	(31,711,230)	(9,327,981)	(4,830,062)
Principal collected	--	4,861,525	4,991,896	2,341,401	1,015,308
Redemption (purchase) of Government securities	(4,919,616)	5,000,000	--	--	--
Investment in restricted cash	--	--	--	--	(2,411,276)
Net cash used in investing activities	(8,135,276)	(25,120,959)	(26,719,334)	(6,986,580)	(6,226,030)
Cash flows from financing activities:					
Proceeds from issuance of common shares	46,388,443	5,175,000	582,107	--	749,290
Proceeds from issuance of notes payable	--	--	9,130,000	--	33,740,000
Payment of dividends	--	(2,480,062)	(4,250,263)	(1,033,359)	(1,484,553)
Payment of issuance costs	(3,462,365)	(362,250)	--	--	--
Payment of principal on notes payable	--	--	(1,210,000)	--	(12,160,000)
Net cash provided by (used in) financing activities	42,926,078	2,332,688	4,251,844	(1,033,359)	20,844,737
Net (decrease) in cash and cash equivalents	35,074,455	(16,224,352)	(18,642,920)	(6,914,155)	16,797,575
Cash and cash equivalents, beginning of period	--	35,074,455	18,850,103	18,850,103	207,183
Cash and cash equivalents, end of period	$ 35,074,455	$ 18,850,103	$ 207,183	$11,935,948	$ 17,004,758
Supplemental disclosures:					
Dividends reinvested	$ --	$ --	$ 40,319	$ --	$ 34,343
Dividends declared, not paid	$ --	$ 1,033,659	$ 1,518,896	$ 1,033,359	$ 1,310,166
Interest paid	$ --	$ 37,148	$ 165,436	$ --	$ 80,115

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

PMC COMMERCIAL TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THE FINANCIAL DATA AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996 IS UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General:

PMC Commercial Trust (the "Company") was organized on June 4, 1993, as a Texas real estate investment trust created primarily to originate loans to small business enterprises which are collateralized by first liens on real estate. The shares of the Company are traded on the American Stock Exchange (Symbol "PCC"). The Company follows the accounting practices prescribed in Statement of Position 75-2 "Accounting Practices of Real Estate Investment Trusts." The Company's principal investment objective is to obtain current income from interest payments and other related fee income on collateralized business loans. The Company's investment advisor is PMC Advisers, Inc. ("PMC Advisers" or the "Investment Manager"), a wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital"), a regulated investment company traded on the American Stock Exchange (symbol "PMC"). The Company intends to maintain its qualified status as a real estate investment trust ("REIT") for Federal income tax purposes.

Consolidated Financial Statements:

On March 7, 1996, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership ("PCR" or the "Partnership") and PMC Commercial Corp., a Delaware corporation, were formed. PMC Commercial Corp. is the general partner for PCR. The financial statements at March 31, 1996 and for the three months then ended include the accounts of PMC Commercial Trust, PMC Commercial Corp. and PCR. PMC Commercial Trust owns 100% of PMC Commercial Corp. and directly or indirectly all of the partnership interests of PCR (see Note 10).

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loans Receivable:

Loans receivable are carried at their outstanding principal balance less any discounts, deferred fees net of related costs, and loan loss reserves. A loan loss reserve is established based on a determination, through an evaluation of the recoverability of individual loans, by the Board of Trust Managers when significant doubt exists as to the ultimate realization of the loan. To date, no loan loss reserves have been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgment and considers the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may require the establishment of additional loan loss reserves in proportion to the potential loss.

Deferred fee revenue is included in 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 as an adjustment of yield.

Deferred Organization Costs:

Costs incurred by the Company in connection with its organization are being amortized on a straight-line basis over a five year period.

Income Taxes:

The Company intends to maintain its qualified status as a REIT under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). In order to remain qualified as a REIT under the Code, the Company must elect to be a REIT and must satisfy various requirements in each taxable year, including, among others, limitations on share ownership, asset diversification, sources of income, and distribution of income. By qualifying, the Company will not be subject to Federal income taxes to the extent that it distributes at least 95% of its taxable income in the fiscal year. Management of the Company believes it has satisfied the various requirements to remain qualified as a REIT.

Interest Income:

Interest income is recorded on the accrual basis to the extent that such amounts are deemed collectible. The Company's policy is to suspend the accrual of interest income when a loan becomes 60 days delinquent.

Construction Monitoring Fees:

Fees related to the Company's construction monitoring activities are recognized based on the percentage of project completion over the construction period and is included in other income in the accompanying consolidated statements of income.

Statement of Cash Flows:

The Company generally considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents for the statement of cash flows. Cash and cash equivalents consists of cash equivalents reflected in the Investments section of the balance sheet and cash reflected in the Other Assets section of the balance sheet.

Per Share Data:

Net income per share is based on the weighted average number of common shares of beneficial interest outstanding during the period.

Reclassification:

Certain prior period amounts have been reclassified to conform to current period presentation.

Statements of Financial Accounting Standards ("SFAS"):

In 1993, the Financial Accounting Standards Board ("FASB") issued SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118 "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." These pronouncements are effective for fiscal years beginning after December 15, 1994. These statements provide income recognition criteria on loans and generally require creditors to value certain impaired and restructured loans at the present value of the expected future cash flows, discounted at the loan's effective interest rate, or at fair value of the collateral if the loan is collateral dependent. Implementing SFAS No. 114 and SFAS No. 118 did not have an effect on the Company's financial statements.

In 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." Pursuant to SFAS No. 123, a company may elect to continue expense recognition under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) or to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on fair value methodology outlined in SFAS No. 123. SFAS No. 123 further specifies that companies electing to continue expense recognition under APB No. 25 are required to disclose pro forma net income and pro forma earnings per share

as if the fair value based accounting prescribed by SFAS No. 123 has been applied. The Company has elected to continue expense recognition pursuant to APB No. 25. SFAS No. 123 is effective for fiscal years beginning after December 15, 1995.

Interim Financial Statements:

The accompanying consolidated financial statements of PMC Commercial Trust and its subsidiaries as of and for the three months ended March 31, 1995 and 1996 is unaudited. In the opinion of the Company's management, the consolidated financial statements reflect all adjustments necessary to present fairly the financial position at March 31, 1996 and the results of operations and cash flows for the three months ended March 31, 1995 and 1996. These adjustments are of a normal recurring nature.

NOTE 2. LOANS RECEIVABLE:

The Company primarily originates loans: (i) to small business enterprises that exceed the net worth, asset, income, number of employee or other limitations applicable to the Small Business Administration ("SBA") programs utilized by PMC Capital or (ii) in excess of $1.1 million to small business enterprises without regard to SBA eligibility requirements. Such loans are collateralized by first liens on real estate and are subject to the Company's underwriting criteria.

The principal amount of loans originated by the Company have not exceeded 70% of the lesser of fair value or cost of the real estate collateral unless credit enhancements such as additional collateral or third party guarantees were obtained. Loans originated or purchased by the Company typically provide interest payments at fixed rates, although the Company may also originate and purchase variable rate loans. Loans generally have maturities ranging from five to 10 years. Most loans provide for scheduled amortization and often have a balloon payment requirement. In most cases, borrowers are entitled to prepay all or part of the principal amount subject to a prepayment penalty depending on the terms of the loan.

During the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, the Company originated 38, 31 and 4 loans, respectively, to corporations, partnerships or individuals. During the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, the Company funded approximately $33.6, $31.7 and $4.8 million and collected commitment fees of approximately $1.3 million, $546,000 and $262,000, respectively.

During the year ended December 31, 1994, the Company purchased loans with a face value of $1,502,005, for $1,325,113 from the U.S. Government and/or its agents. The discount on these loans is netted against loans receivable and is being amortized over the remaining life of the loans on the interest method. During the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, approximately $22,000, $26,000 and $7,000 of the discount has been recognized as interest income, respectively.

At March 31, 1996, approximately 31% and 11% of the Company's loan portfolio consisted of loans to borrowers in Texas and Maryland, respectively. At December 31, 1995, approximately 32% and 12% of the Company's loan portfolio consisted of loans to borrowers in Texas and Maryland, respectively. Approximately 38%, 11% and 10% of the Company's loan portfolio as of December 31, 1994 consisted of loans to borrowers in Texas, Maryland and Pennsylvania, respectively. No other state had a concentration of 10% or greater at March 31, 1996, December 31, 1995 or December 31, 1994. The Company's loan portfolio was approximately 92%, 96% and 96% concentrated in the lodging industry at December 31, 1994 and 1995 and March 31, 1996, respectively.

In connection with the origination of a loan, the Company charges a commitment fee. In accordance with SFAS No. 91, this non-refundable fee, less the direct costs associated with the origination, is deferred and is included as a reduction of the carrying value of loans receivable. These net fees are being recognized as

income over the life of the related loan as an adjustment of yield. The Company had $664,962, $974,971 and $968,699 in deferred commitment fees at December 31, 1994 and 1995 and March 31, 1996, respectively.

NOTE 3. DUE TO AFFILIATE:

The investments of the Company are managed by PMC Advisers. Pursuant to an investment management agreement between the Company and the Investment Manager (the "Investment Management Agreement"), the Company is obligated to pay to the Investment Manager, quarterly in arrears, a base fee (the "Base Fee") consisting of a quarterly servicing fee of 0.125% of the average quarterly value of all assets (as defined in the Investment Management Agreement), representing on an annual basis approximately 0.5% of the average annual value of all assets (as defined in the Investment Management Agreement), and a quarterly advisory fee of 0.25% of the average quarterly value of all invested assets (as defined in the Investment Management Agreement), representing on an annual basis approximately 1% of the average annual value of all invested assets (as defined in the Investment Management Agreement). In addition, commencing January 1, 1994, for each calendar year during which the Company's annual return on average equity capital (as defined in the Investment Management Agreement) after deduction of the Base Fee (the "Actual Return") exceeds 6.69% (the "Minimum Return"), the Company will pay to the Investment Manager, as incentive compensation, an additional advisory fee (the "Annual Fee") equal to the product determined by multiplying the average annual value of all invested assets (as defined in the Investment Management Agreement) by a percentage equal to the difference between the Actual Return and the Minimum Return, up to a maximum of one percent (1%) per annum. The Annual Fee will be earned only to the extent that the annual return on average common equity capital (as defined in the Investment Management Agreement) after deduction of the Base Fee and Annual Fee is at least equal to the Minimum Return. All such advisory fees will be reduced to fifty percent with respect to the value of Invested Assets that exceed common beneficiaries' equity as a result of leverage or the issuance of preferred shares.

Pursuant to the Investment Management Agreement, the Company incurred fees of $429,000, $1,189,000 and $356,000 based upon average value of all assets of $48,993,937, $53,884,788 and $66,172,702 and average value of all invested assets of $18,922,343, $46,756,497 and $60,669,030, for the years ended December 31, 1994 and 1995 and the three months ended March 31, 1996, respectively. Pursuant to the Investment Management Agreement, the Company was not obligated to pay advisory fees to the Investment Manager from inception through June 30, 1994. Of the amount of service and advisory fees paid or payable to the Investment Manager as of December 31, 1994 and 1995 and March 31, 1996, $71,500, $244,000 and $80,000, respectively, have been offset against commitment fees as a direct cost of originating loans (see NOTE 2).

NOTE 4. BORROWER ADVANCES:

The Company finances projects during the construction phase. At December 31, 1994 and 1995 and March 31, 1996, the Company was in the process of funding approximately $16.1 million, $15.9 million and $21.6 million in construction projects, respectively, of which $11.4 million, $9.2 million and $11.7 million in future fundings remain, respectively. As part of the monitoring process to verify that the borrowers' cash equity is utilized for its intended purpose, the Company receives funds from the borrowers and releases funds upon presentation of appropriate supporting documentation. At December 31, 1994 and 1995 and March 31, 1996, the Company had $2.3 million, $579,000 and $1.1 million, respectively, in funds held on behalf of borrowers which is included as a liability in the accompanying consolidated balance sheet. The Company will use cash, cash equivalents or available advances under its revolving credit facility to fund these obligations.

NOTE 5. NET INCOME PER SHARE:

The weighted average number of common shares of beneficial interest outstanding were 3,099,530, 3,430,009 and 3,451,091 for the periods ended December 31, 1993, 1994 and 1995, respectively. The weighted average number of common shares of beneficial interest outstanding were 3,444,530 and 3,519,612 for the three months ended March 31, 1995 and 1996, respectively. Net income per share for the period ended December 31, 1993 is based on the weighted average number of common shares of beneficial interest outstanding during the period December 27, 1993 (commencement of operations) to December 31, 1993. The weighted average number of common shares of beneficial interest outstanding during the years ended December 31, 1994 and 1995 and the three months ended March 31, 1995 and 1996 were not affected by outstanding options, as such options were anti-dilutive or immaterial (see NOTE 8).

NOTE 6. BENEFICIARIES' EQUITY:

During January 1994, the Company sold 345,000 additional common shares of beneficial interest pursuant to the exercise by the underwriters of over-allotment options relating to the initial public offering for net proceeds, after underwriting discount, of approximately $4.8 million.

As part of the requirements of qualifying for REIT status under the Code, the Company must distribute to its shareholders at least 95% of its income for Federal income tax purposes ("Taxable Income") within established time requirements of the Code. If these requirements are not met, the Company will be subject to Federal income taxes and/or excise taxes. As a result of a timing difference for the recognition of income with respect to fees collected at the inception of originating loans, the Company's Taxable Income exceeds net income in accordance with generally accepted accounting principals ("GAAP"). In order not to incur any tax liability, the Company has declared or distributed the required amount of taxable income as dividends to its shareholders. For Federal income tax purposes, these dividends do not represent a return of capital.

NOTE 7. DIVIDEND REINVESTMENT PLAN:

The Company filed a registration statement with the Securities and Exchange Commission to implement its dividend reinvestment plan. The registration statement was declared effective by the Securities and Exchange Commission on January 13, 1995. During the year ended December 31, 1995 and the three months ended March 31, 1996, 34,190 and 47,597 shares were issued pursuant to the plan, respectively.

NOTE 8. SHARE OPTION PLANS:

In accordance with the 1993 Employees Share Option Plan (the "Employees Plan") and Trust Managers Share Option Plan (the "Trust Managers Plan"), adopted by the Company, options to purchase up to 180,000 shares in aggregate can be granted to directors, officers or key employees.

The grants outstanding at December 31, 1995 are:

NUMBER OF SHARES	EXERCISE PRICE	DATE OF GRANT	EXERCISE DATE	EXPIRATION DATE
4,000	$ 15.000	December 17, 1993	December 17, 1994	December 17, 1998
2,000	$ 14.625	May 10, 1994	May 10, 1995	May 10, 1999
7,665	$ 11.875	December 10, 1994	December 10, 1995	December 10, 1999
31,770	$ 11.875	December 10, 1994	December 10, 1996	December 10, 1999
2,000	$ 11.750	December 17, 1994	December 17, 1995	December 17, 1999
1,000	$ 14.125	May 10, 1995	May 10, 1996	May 10, 2000
2,000	$ 15.750	December 17, 1995	December 17, 1996	December 17, 2000
12,000	$ 15.750	December 15, 1995	January 15, 1997	December 15, 2000
4,940	$ 15.750	December 15, 1995	December 15, 1996	December 15, 2000
4,940	$ 15.750	December 15, 1995	December 15, 1997	December 15, 2000

Employees Plan:

As of December 31, 1995, 86,020 share options had been granted, net of shares cancelled in 1994 as detailed below. During December 1995, 12,996 shares were exercised at $11.875. In addition, 11,109 shares expired or were cancelled pursuant to the plan during the year ended December 31, 1995. The number of shares exercisable at December 31, 1995 and March 31, 1996 was 7,665 and 5,990, respectively.

In December 1994, the Board of Trust Managers allowed the officers and employees holding existing options to elect to participate in an exchange of options as of December 10, 1994, whereby the then-outstanding options could be cancelled and, in lieu thereof, new options could be granted at an exchange rate of 0.6 new shares per share previously granted. As a result, 39,400 options were cancelled and 23,640 new options were issued.

Trust Managers Plan:

Only the trust managers who are not affiliated with PMC Capital or the Investment Manager (the "Independent Trust Managers") are eligible to participate in the Trust Managers Plan which provides for the grant of nonqualified share options covering up to an aggregate of 20,000 shares. The Trust Managers Plan is a nondiscretionary plan pursuant to which options to purchase 2,000 shares are granted to each Independent Trust Manager on the date such trust manager takes office. In addition, options to purchase 1,000 shares are granted each year thereafter on the anniversary of the date the trust manager took office so long as such trust manager is re-elected to serve as a trust manager. 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 Independent Trust Manager for any reason or (ii) within five years after date of grant. The number of shares exercisable at both December 31, 1995 and March 31, 1996 was 8,000.

NOTE 9. COMMITMENTS AND CONTINGENCIES:

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. The Company had approximately $7.1 million and $19.2 million of loan commitments outstanding to 6 corporations and 15 corporations, partnerships or individuals in the lodging industry at

December 31, 1995 and March 31, 1996, respectively. The weighted average contractual interest rate on these loan commitments at December 31, 1995 and March 31, 1996 was 10.95% and 10.57%, respectively. In addition, at December 31, 1995 and March 31, 1996 the Company had $6.5 million and $8.5 million of loan commitments outstanding on 12 and 13 partially funded construction loans, respectively, and approximately $1.9 million and $8.0 million of loan commitments outstanding on SBA Section 504 program loans, respectively. The above commitments are made in the ordinary course of the Company's business and in management's opinion, are generally on the same terms as those to existing borrowers. Commitments generally have fixed expiration dates and require payment of a fee. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. To the extent the Company has available funds, an additional $15.2 million in commitments in the lodging industry issued by the Investment Manager as of March 31, 1996, with a weighted average interest rate of 10.64% will be funded by the Company. Pursuant to the Investment Management Agreement, should the Company not have funds available for commitments, such commitments will be referred to affiliated entities.

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

NOTE 10. NOTES PAYABLE:

During 1995, the Company completed an arrangement for a revolving credit facility providing the Company with funds to originate loans collateralized by commercial real estate. This credit facility provides to the Company up to the lesser of $20 million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings. At December 31, 1995, the Company had $7.9 million outstanding under the credit facility with availability of an additional $12.1 million. The Company is charged interest on the balance outstanding under the credit facility, at the option of the Company, at either the prime rate of the lender less 50 basis points or 200 basis points over the 30, 60 or 90 day LIBOR. At December 31, 1995, the weighted average interest rate on short-term borrowings under the revolving credit facility was 8.2%.

On March 12, 1996, a special purpose affiliate of the Company, PCR, completed a private placement of $29,500,000 of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Notes, issued at par, which mature in 2016 and bear interest at the rate of 6.72% per annum, are collateralized by approximately $39.7 million of loans contributed by the Company to the Partnership. In connection with this private placement, the Notes were given a rating of "AA" by Duff and Phelps Credit Rating Co. The loans were originated or purchased by the Company in accordance with the Company's lending strategy and underwriting criteria. The Partnership has the exclusive obligation for the repayment of the Notes, and the holders of the Notes have no recourse to the Company or its assets in the event of nonpayment other than the loans contributed to the Partnership and the restricted investments. The net proceeds from this issuance of the Notes (approximately $27.1 million after giving effect to costs of $500,000 and a $1.9 million deposit held by the trustee as collateral) were distributed to the Company in accordance with its interest in the Partnership. The Company used such proceeds to pay down all outstanding borrowings under the Company's credit facility and intends to make additional loans in accordance with its lending criteria.

NOTE 11. FAIR VALUES OF FINANCIAL INSTRUMENTS:

At December 31, 1995, the estimated fair values of the Company's financial instruments are as follows:

	CARRYING AMOUNT	FAIR VALUE
Assets:		
Loans receivable, net	$59,129,536	$60,505,163
Cash equivalents	173,679	173,679
Cash	33,504	33,504
Other Assets	436,445	436,445
Liabilities:		
Notes payable	7,920,000	7,920,000
Other liabilities	3,553,237	3,553,237

(a) Loans receivable, net

The estimated fair value for all fixed rate loans is estimated by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

(b) Cash equivalents

The carrying amount is a reasonable estimation of fair value.

(c) Cash

The carrying amount is a reasonable estimation of fair value.

(d) Other assets

The carrying amount is a reasonable estimation of fair value.

(e) Notes payable

The carrying amount is a reasonable estimation of fair value since amounts due under the revolving credit facility are variable rate, short term obligations.

(f) Other liabilities

The carrying amount is a reasonable estimation of fair value.

NOTE 12. QUARTERLY FINANCIAL DATA (UNAUDITED):

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

	1994		
	REVENUES	NET INCOME	EARNINGS PER SHARE
First Quarter	$ 490,596	$ 410,606	$ 0.12
Second Quarter	778,500	665,075	0.19
Third Quarter	1,231,607	1,125,493	0.33
Fourth Quarter	1,190,069	998,968	0.29
	$3,690,772	$3,200,142	$ 0.93

	1995		
	REVENUES	NET INCOME	EARNINGS PER SHARE
First Quarter	$1,421,548	$1,185,124	$ 0.34
Second Quarter	1,414,668	1,128,282	0.33
Third Quarter	1,591,744	1,254,743	0.36
Fourth Quarter	1,802,455	1,327,875	0.39
	$6,230,415	$4,896,024	$ 1.42

NOTE 13. SUBSEQUENT EVENT (UNAUDITED):

On April 23, 1996, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission to register for sale up to 2,360,000 common shares of beneficial interest. The registration is ongoing and there can be no assurance that the registration statement will be declared effective or that the Company will be able to sell any of the shares.

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, THE COMPANY'S INVESTMENT MANAGER OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

2,000,000 SHARES

PMC
COMMERCIAL TRUST

COMMON SHARES OF
BENEFICIAL INTEREST

PROSPECTUS

OPPENHEIMER & CO., INC.

J.C. BRADFORD & CO.

FAHNESTOCK & CO. INC.

, 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 30. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table itemizes the expenses incurred by the Company in connection with the offering of the Common Shares being registered. All of the amounts shown are estimates except the Securities and Exchange Commission registration fee, the NASD fee and the American Stock Exchange listing fee.

ITEM	AMOUNT
Registration Fee -- Securities and Exchange Commission	$ 13,733
NASD Fee	4,483
American Stock Exchange Listing Fee	17,500
Transfer Agent's and Registrar's Fees*	1,000
Printing and Engraving Fees*	80,000
Legal Fees and Expenses (other than Blue Sky)*	75,000
Accounting Fees and Expenses*	45,000
Blue Sky Fees and Expenses (including fees of counsel)*	35,000
Travel Expense*	15,000
Miscellaneous Expenses*	13,284
Total	$300,000

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* Estimated

ITEM 31. SALES TO SPECIAL PARTIES

The Company is concurrently, by means of this registration statement, offering 60,000 Common Shares directly to trust managers, officers and employees of the Company and directors, officers and employees of PMC Advisers or of the affiliates of PMC Advisers and certain associated persons and entities, at a price equal to $ per share less underwriting discounts and commissions payable with respect to the Common Shares offered to the public. The obligation of such direct investors to purchase Common Shares in the Direct Offering is contingent on the purchase of Common Shares by the Underwriters. There is no minimum number of Common Shares to be purchased in the Direct Offering. As a condition to the purchase of Common Shares in the Direct Offering, such investors shall agree not to resell any Common Shares purchased by them for at least 180 days from the date of this registration statement without the consent of Oppenheimer & Co., Inc.

ITEM 32. RECENT SALES OF UNREGISTERED SECURITIES

On June 7, 1993, the Company issued 100 Common Shares of beneficial interest to each of Lance B. Rosemore, President, Chief Executive Officer and Trust Manager of the Company, and Andrew S. Rosemore, Chairman of the Board of Trust Managers, Chief Operating Officer and Trust Manager of the Company, for an aggregate price of $2,790 pursuant to an exemption from registration under the Securities Act of 1933, as amended provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

ITEM 33. INDEMNIFICATION OF TRUST MANAGERS AND OFFICERS

Section 9.20 of the Texas Real Estate Investment Trust Act (the "Texas REIT Act"), subject to procedures and limitations stated therein, allows the Company to indemnify any person who was, is or is threatened to be made a named defendant or respondent in a proceeding because the person is or was a trust manager or officer against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses actually incurred by the person in connection with the proceeding. The Company is required by Section 9.20 to indemnify a trust manager or officer against reasonable expenses incurred by him

in connection with a proceeding in which he is a named defendant or respondent because he is or was a trust manager or officer if he has been wholly successful, on the merits or otherwise, in the defense of the proceeding. Under the Texas REIT Act, trust managers and officers are not entitled to indemnification if (i) the trust manager or officer is found liable to the real estate investment trust or is found liable for willful or intentional misconduct in the performance of his duty to the real estate investment trust and (ii) the trust manager or officer was found liable for willful or intentional misconduct in the performance of his duty to the real estate investment trust. The statute provides that indemnification pursuant to its provisions is not exclusive of the rights of indemnification to which a person may be entitled under any provision of the Declaration of Trust, bylaws, agreements, or otherwise. In addition, the Company has, pursuant to Section 15.10 of the Texas REIT Act, provided in its Declaration of Trust that, to the fullest extent permitted by applicable law, a trust manager of the Company shall not be liable for any act, omission, loss, damage, or expense arising from the performance of his duty under the real estate investment trust, except for his own willful misfeasance, malfeasance or negligence.

The Company's Declaration of Trust and Bylaws provide for indemnification by the Company of its trust managers and officers to the fullest extent permitted by the Texas REIT Act. In addition, the Company's Bylaws provide that the Company may pay or reimburse, in advance of final disposition of a proceeding, reasonable expenses incurred by a present or former trust manager or officer made a party to a proceeding by reason of his status as a trust manager or officer provided that (i) the trust managers have consented to the advancement of expenses (which consent shall not be unreasonably withheld) and (ii) the Company shall have received (a) a written affirmation by the trust manager or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the Company under the Texas REIT Act and (b) a written undertaking by or on his behalf to repay the amount paid or reimbursed by the Company if it shall ultimately be determined that the standard of conduct was not met or it is ultimately determined that indemnification of the trust manager against expenses incurred by him in connection with that proceeding is prohibited by Section 9.20 of the Texas REIT Act.

The Company has agreed to indemnify the Underwriters against certain liabilities, losses and expenses including liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

ITEM 34. TREATMENT OF PROCEEDS FROM COMMON SHARES BEING REGISTERED

Not applicable.

ITEM 35. FINANCIAL STATEMENTS AND EXHIBITS

a. Financial Statements

Report of Independent Accountants

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 1994 and 1995 and March 31, 1996

Consolidated Statements of Income for the period June 4, 1993 (date of inception) to December 31, 1993, the years ended December 31, 1994 and 1995, and the three months ended March 31, 1995 and 1996

Consolidated Statements of Beneficiaries' Equity for the period June 4, 1993 (date of inception) to December 31, 1993, the years ended December 31, 1994 and 1995, and the three months ended March 31, 1996

Consolidated Statements of Cash Flows for the period June 4, 1993 (date of inception) to December 31, 1993, the years ended December 31, 1994 and 1995, and the three months ended March 31, 1995 and 1996

Notes to Consolidated Financial Statements

b. Schedules to Financial Statements

None.

c. Exhibits

1.1	--	Form of Underwriting Agreement
3.1	--	Declaration of Trust (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 3.1 and incorporated herein by reference)
3.1(a)	--	Amendment No. 1 to Declaration of Trust (previously filed with the Company's Amendment No. 1 on Form S-11 filed with the Securities and Exchange Commission on September 30, 1993, as amended (Registration No. 33-65010), as Exhibit No. 3.1(a) and incorporated herein by reference)
3.1(b)	--	Amendment No. 2 to Declaration of Trust (previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1993 as Exhibit No. 3.1(b) and incorporated herein by reference)
3.2	--	Bylaws (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 3.2 and incorporated herein by reference)
4.	--	Form of Share Certificate.
5.	--	Opinion of Winstead Sechrest & Minick P.C., regarding the legality of the Common Shares
8.	--	Opinion of Winstead Sechrest & Minick P.C., regarding tax matters
10.1	--	Investment Management Agreement between the Company and PMC Advisers, Inc.
10.2	--	1993 Employee Share Option Plan (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 10.2 and incorporated herein by reference)
10.3	--	1993 Trust Manager Share Option Plan (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 10.3 and incorporated herein by reference)
10.4	--	Dividend Reinvestment Plan (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 10.4 and incorporated herein by reference)
10.5	--	Loan Origination Agreement (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65010), as Exhibit No. 10.5 and incorporated herein by reference)
10.6	--	Revolving Credit Facility (previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1995 as Exhibit No. 10.6 and incorporated herein by reference)
10.7	--	Structured Financing (previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1995 as Exhibit No. 10.7 and incorporated herein by reference)

10.8	--	Marketing/Reserve Agreement between U.S. Franchise Systems, Inc. and the Company.
23.1	--	Consent of Coopers & Lybrand L.L.P.
23.2	--	Consent of Winstead Sechrest & Minick P.C. Included in responses to items 5 and 8.
24.	--	Powers of attorney of the persons signing this registration statement, Dr. Martha R. Greenberg and Dr. Ira Silver, are included in Exhibit 24 of this registration statement (all other powers of attorney were previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on April 23, 1996 (Registration No. 333-2757), as Exhibit No. 24 and incorporated herein by reference).
27.	--	Financial Data Schedule

ITEM 36. UNDERTAKINGS

(a) Undertaking related to acceleration of effectiveness:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) Undertaking related to equity offerings of non-reporting registrants:

The undersigned registrant hereby undertakes to provide to the representatives of the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the representatives of the underwriters to permit prompt delivery to each purchaser.

(c) Undertaking related to Rule 430A:

The undersigned registrant hereby undertakes that:

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

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Amendment No. 1 to Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on June 7, 1996.

PMC COMMERCIAL TRUST

By: /s/ Lance B. Rosemore
Lance B. Rosemore, President

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 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, Chief Operating Officer and Trust Manager	June 7, 1996
/s/ LANCE B. ROSEMORE Lance B. Rosemore	President, Chief Executive Officer, Secretary and Trust Manager (principal executive officer)	June 7, 1996
/s/ BARRY N. BERLIN Barry N. Berlin	Chief Financial Officer (principal financial and accounting officer)	June 7, 1996
/s/ NATHAN G. COHEN* Nathan G. Cohen	Trust Manager	June 7, 1996
/s/ DR. MARTHA R. GREENBERG* Dr. Martha R. Greenberg	Trust Manager	June 7, 1996
/s/ ROY H. GREENBERG* Roy H. Greenberg	Trust Manager	June 7, 1996
/s/ IRVING MUNN* Irving Munn	Trust Manager	June 7, 1996
/s/ DR. IRA SILVER* Dr. Ira Silver	Trust Manager	June 7, 1996

*By: /s/ LANCE B. ROSEMORE
Lance B. Rosemore
Attorney-in-Fact

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	PAGE
1.1	-- Underwriting Agreement	
3.1	-- Declaration of Trust (previously filed with the Company's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65910), as Exhibit No. 3.1 and incorporated herein by reference)	
3.1(a)	-- Amendment No. 1 to Declaration of Trust (previously filed with the Company's Amendment No. 1 on Form S-11 filed with the Securities and Exchange Commission on September 30, 1993, as amended (Registration No. 33-65010), as Exhibit No. 3.1(a) and incorporated herein by reference)	
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EXHIBIT 1.1

2,000,000 Shares

PMC COMMERCIAL TRUST

Shares of Beneficial Interest

UNDERWRITING AGREEMENT

_____ __, 1996

OPPENHEIMER & CO., INC.
J.C. BRADFORD & CO.
FAHNESTOCK & CO., INC.
c/o Oppenheimer & Co., Inc.
Oppenheimer Tower
World Financial Center
New York, New York 10281

On behalf of the several
Underwriters named on
Schedule I attached hereto.

Ladies and Gentlemen:

PMC Commercial Trust, a Texas real estate investment trust (the "Company"), proposes to sell to you and the other underwriters named on Schedule I to this Agreement (the "Underwriters"), for whom you are acting as Representatives, an aggregate of 2,000,000 shares (the "Firm Shares") of its common shares of beneficial interest, $0.01 par value (the "Common Shares"). In addition, the Company proposes to grant to the Underwriters an option to purchase up to an additional 300,000 Common Shares (the "Option Shares") from it for the purpose of covering over-allotments in connection with the sale of the Firm Shares. The Firm Shares and the Option Shares are together called the "Shares."

1. Sale and Purchase of the Shares. On the basis of the representations, warranties and agreements contained in, and subject to the terms and conditions of, this Agreement:

(a) The Company agrees to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at $_____ per share (the "Initial Price"), the number of Firm Shares set forth opposite the name of such Underwriter on Schedule I to this Agreement.

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(b) The Company grants to the several Underwriters an option to purchase, severally and not jointly, all or any part of the Option Shares at the Initial Price. The number of Option Shares to be purchased by each Underwriter shall be the same percentage (adjusted by the Representatives to eliminate fractions) of the total number of Option Shares to be purchased by the Underwriters as such Underwriter is purchasing of the Firm Shares. Such option may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters and may be exercised in whole or in part at any time on or before 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date (as defined below), and from time to time thereafter within 30 days after the date of this Agreement, in each case upon written or telegraphic notice, or verbal or telephonic notice confirmed by written or telegraphic notice, by the Representatives to the Company no later than 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date or at least two business days before each Option Shares Closing Date (as defined below), as the case may be, setting forth the number of Option Shares to be purchased and the time and date (if other than the Firm Shares Closing Date) of such purchase.

Furthermore, on the Firm Shares Closing Date (as hereinafter defined), the Company proposes to issue and sell directly to certain officers and trust managers of the Company up to 60,000 additional Common Shares pursuant to agreements (the "Purchase Agreements"), dated as of _____, 1996, between the Company and each such party (each a "Direct Purchaser"). The Common Shares to be purchased by all Direct Purchasers on the Firm Shares Closing Date pursuant to the Purchase Agreements are hereinafter called the "Company Directed Shares" and are not "Shares" within the meaning of this Agreement.

2. Delivery and Payment. Delivery by the Company of the Firm Shares to the Representatives for the respective accounts of the Underwriters, and payment of the purchase price by certified or official bank check or checks payable in New York Clearing House (next day) funds to the Company shall take place at the offices of Oppenheimer & Co., Inc., at Oppenheimer Tower, World Financial Center, New York, New York 10281, at 10:00 a.m., New York City time, on the third or fourth business day (as permitted under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) following the date of this Agreement, or at such time on such other date, not later than 10 business days after the date of this Agreement, as shall be agreed upon by the Company and the Representatives (such time and date of delivery and payment are called the "Firm Shares Closing Date").

In the event the option with respect to the Option Shares is exercised, delivery by the Company of the Option Shares to the Representatives for the respective accounts of the Underwriters and payment of the purchase price by certified or official bank check or checks payable in New York Clearing House (next day) funds to the Company, for the purchase price of the Option Shares being sold by the Company, shall take place at the offices of Oppenheimer & Co., Inc. specified above at the time and on the date (which may be the same date as, but in no event shall be earlier than, the Firm Shares Closing Date) specified in the notice referred to in Section l(b) (such time and date of delivery and payment

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are called an "Option Shares Closing Date"). The Firm Shares Closing Date and each Option Shares Closing Date are called, individually, a "Closing Date" and, together, the "Closing Dates."

Certificates evidencing the Shares shall be registered in such names and shall be in such denominations as the Representatives shall request at least two full business days before the Firm Shares Closing Date or, in the case of Option Shares, on the day of notice of exercise of the option as described in Section l(b) and shall be made available to the Representatives for checking and packaging, at such place as is designated by the Representatives, on the full business day before the Firm Shares Closing Date (or the Option Shares Closing Date in the case of the Option Shares).

3. Registration Statement and Prospectus, Public Offering. The Company has prepared in conformity with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the published rules and regulations thereunder (the "Rules") adopted by the Securities and Exchange Commission (the "Commission") a registration statement on Form S-11 (No. 333-_____), including a preliminary prospectus relating to the Shares and the Company Directed Shares, and has filed with the Commission the Registration Statement (as hereinafter defined) and such amendments thereof as may have been required to the date of this Agreement. Copies of such Registration Statement (including all amendments thereof) and of the related preliminary prospectus have heretofore been delivered by the Company to you. The term "preliminary prospectus" means any preliminary prospectus (as described in Rule 430 of the Rules) included at any time as a part of the Registration Statement. The Registration Statement as amended at the time and on the date it becomes effective (the "Effective Date"), including all exhibits and information, if any, deemed to be part of the Registration Statement pursuant to Rule 424(b) and Rule 430A of the Rules, is called the "Registration Statement." The term "Prospectus" means the prospectus in the form first used to confirm sales of the Shares (whether such prospectus was included in the Registration Statement at the time of effectiveness or was subsequently filed with the Commission pursuant to Rule 424(b) of the Rules).

The Company understands that the Underwriters propose to make a public offering of the Shares, as set forth in and pursuant to the Prospectus, as soon after the Effective Date and the date of this Agreement as the Representatives deem advisable. The Company hereby confirms that the Underwriters and dealers have been authorized to distribute or cause to be distributed each preliminary prospectus and are authorized to distribute the Prospectus (as from time to time amended or supplemented if the Company furnishes amendments or supplements thereto to the Underwriters).

4. Representations and Warranties of the Company. The Company hereby represents and warrants to each Underwriter as follows:

(a) The Company meets the requirements for use of Form S-11 under the Securities Act. On the Effective Date the Registration Statement complied, and on the date of the Prospectus, on the date any post-effective amendment to the Registration Statement shall become effective, on the date any supplement or amendment to the

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Prospectus is filed with the Commission and on each Closing Date, the Registration Statement and the Prospectus (and any amendment thereof or supplement thereto) will comply, in all material respects, with the applicable provisions of the Securities Act and the Rules and the Exchange Act and the rules and regulations of the Commission thereunder; the Registration Statement did not, as of the Effective Date, 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 not misleading; and on the other dates referred to above neither the Registration Statement nor the Prospectus, nor any amendment thereof or supplement thereto, will contain any untrue statement of a material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. When any related preliminary prospectus was first filed with the Commission (whether filed as part of the Registration Statement or any amendment thereto or pursuant to Rule 424(a) of the Rules) and when any amendment thereof or supplement thereto was first filed with the Commission, such preliminary prospectus as amended or supplemented complied in all material respects with the applicable provisions of the Securities Act and the Rules and did not 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 not misleading. Notwithstanding the foregoing, the Company makes no representation or warranty as to the paragraph with respect to stabilization on the inside front cover page of the Prospectus and the statements contained under the caption "Underwriting" in the Prospectus. The Company acknowledges that the statements referred to in the previous sentence constitute the only information furnished in writing by the Representatives on behalf of the several Underwriters specifically for inclusion in the Registration Statement, any preliminary prospectus or the Prospectus.

(b) The financial statements of the Company (including all notes and schedules thereto) included in the Registration Statement and Prospectus comply with the requirements of the Securities Act and present fairly the financial position and the other information purported to be shown therein of the Company at the respective dates to which they apply; such financial statements and related schedules and notes have been prepared in conformity with generally accepted accounting principles consistently applied and all adjustments necessary for a fair presentation of the results at such dates have been made; and the other financial and statistical information and data set forth in the Registration Statement and Prospectus are accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company.

(c) Coopers & Lybrand, whose report is filed with the Commission as a part of the Registration Statement are, and during the periods covered by their report were, independent public accountants as required by the Securities Act and the Rules.

(d) The Company is a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of Texas. The Company is qualified as a real estate investment trust under the Texas Real Estate Investment

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Trust Act and the rules and regulations thereunder, and the Company's method of operation as described in the Registration Statement and Prospectus will enable it to continue to meet the requirements for qualification as a real estate investment trust under such act. Except as described in the Prospectus, the Company does not own, directly or indirectly, any interest in, or control, directly or indirectly, any corporation, partnership, joint venture, association or other business organization. The Company is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its assets or properties (owned, leased or licensed) or the nature of its business makes such qualification necessary except for such jurisdictions where the failure to so qualify would not have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

(e) The Company does not own, lease or license any asset or property or conduct any business outside the United States of America. The Company has all requisite power and authority, and the Company and its officers, trust managers and employees have all necessary authorizations, approvals, consents, orders, licenses, certificates and permits of and from all governmental or regulatory bodies or any other person or entity, domestic or foreign ("Permits"), to own, lease and license their assets and properties and conduct their businesses as now being conducted and as described in the Registration Statement and the Prospectus except for such Permits the failure to so obtain would not, individually or in the aggregate, have a material adverse effect upon the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company; no such Permit contains a materially burdensome restriction other than as disclosed in the Registration Statement and the Prospectus; the Company and each of its officers, trust managers and employees has fulfilled and performed in all material respects its obligations with respect to such Permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or any other material impairment of the rights of the holder of any such Permit; and the Company has all such power and authority, and such authorizations, approvals, consents, orders, licenses, certificates and Permits to enter into, deliver and perform this Agreement and the Investment Management Agreement, dated as of December 16, 1993, between PMC Advisers, Inc. ("PMC Advisers") and the Company, including the Loan Origination Agreement attached as Exhibit A thereto (collectively, the "Management Agreement") and to issue and sell the Shares (except as may be required under state securities and Blue Sky laws) and the Company Directed Shares.

(f) The Company owns or possesses adequate and enforceable rights to use all patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, licenses, know-how and other similar rights and proprietary knowledge (collectively, "Intangibles") necessary for the conduct of its business as described in the Registration Statement and the Prospectus. The Company has not received any notice of, and to its best knowledge is not aware of, any infringement of or conflict with asserted rights of others with respect to any Intangibles which, singly or in the aggregate, if the subject of an unfavorable decision,

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ruling or finding, would have a material adverse effect upon the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

(g) The Company has good title to each of the items of property (real and personal) which are reflected in the financial statements referred to in Section 4(b) or are referred to in the Registration Statement and the Prospectus as being owned by it and valid and enforceable leasehold interests in each of the items of real and personal property which are referred to in the Registration Statement and the Prospectus as being leased by it, in each case free and clear of all liens, encumbrances, claims, security interests and defects, other than those described in the Registration Statement and the Prospectus and those which do not and will not have a material adverse effect upon the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

(h) There is no litigation or governmental or other proceeding or investigation before any court or before or by any public body or board pending or, to the Company's best knowledge, threatened (and the Company does not know of any basis therefor) against, or involving the assets, properties or business of, the Company or any of its officers, trust managers or five percent shareholders which would materially adversely affect the value or the operation of any such assets or properties or the business, results of operations, prospects or condition (financial or otherwise) of the Company.

(i) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, except as described therein, (i) there has not been any material adverse change, or any development involving or which could reasonably be expected to involve a prospective material adverse change, in the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company, whether or not arising from transactions in the ordinary course of business; (ii) there has not been any material change in the capital stock, or material increase in the short-term or long-term debt, of the Company; (iii) the Company has not sustained any material loss or interference with its assets, businesses or properties (whether owned or leased) from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree; and (iv) since the date of the latest balance sheet included in the Registration Statement and the Prospectus, except as reflected therein, the Company has not (a) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, except such liabilities or obligations incurred in the ordinary course of business, (b) entered into any transaction not in the ordinary course of business or (c) declared or paid any dividend or made any distribution on any shares of its stock or redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of its stock.

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(j) There is no document or contract of a character required to be described in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required. Each material agreement to which the Company is a party is in full force and effect and is valid and enforceable by and against the Company in accordance with its terms, assuming the due authorization, execution and delivery thereof by each of the other parties thereto. Neither the Company nor, to the best of the Company's knowledge, any other party is in default in the observance or performance of any term or obligation to be performed by it under any such agreement, and no event has occurred which with notice or lapse of time or both would constitute such a default, in any such case which default or event would have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

(k) The Company is operating in compliance with (and has not violated) all federal, state and local laws, regulations, administrative orders or rulings or court decrees applicable to it or to any of its property, (including without limitation those relating to environmental, safety and similar matters, discrimination in the hiring, promotion and pay of employees, the Employee Retirement Income Security Act and the rules and regulations thereunder), except for violations which would not, individually or in the aggregate, have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company. The Company is not in violation of any term or provision of its declaration of trust or by-laws, and the Company has not taken any actions which may result in the inability of the Company to qualify as a real estate investment trust under the Texas Real Estate Investment Trust Act.

(l) Neither the execution, delivery and performance of this Agreement or the Management Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares and the Company Directed Shares) or thereby will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party or by which it or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to the Company or violate any provision of the declaration of trust or by-laws of the Company, except for such consents or waivers which have already been obtained and are in full force and effect, or require any consent, approval, authorization or other order of or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except compliance with the Securities Act, the Exchange Act and the securities or Blue Sky laws of various jurisdictions, which has been or will be effected in accordance with this Agreement).

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(m) The Company has authorized and outstanding shares of beneficial interest as set forth under the caption "Capitalization" in the Prospectus. All of the outstanding Common Shares have been duly and validly issued and are fully paid and nonassessable and were issued and sold in compliance with all applicable federal and state securities laws, and none of them were issued in violation of any preemptive or other similar right. The Shares, when issued and sold pursuant to this Agreement, and the Company Directed Shares, when issued and sold pursuant to the Purchase Agreements, will be duly and validly issued, fully paid and nonassessable and none of them will be issued in violation of any preemptive or other similar right. Except as disclosed in the Registration Statement and the Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and there is no commitment, plan or arrangement to issue, any shares of the Company or any security convertible into, or exercisable or exchangeable for, such shares. The Common Shares, the Company's Preferred Shares and the Shares conform in all material respects to all statements in relation thereto contained in the Registration Statement and the Prospectus.

(n) No holder of any shares of beneficial interest of the Company has the right to have any security owned by such holder included in the Registration Statement or to demand registration of any security owned by such holder. Each trust manager and officer of the Company has delivered to the Representatives his enforceable written agreement that he will not, for a period of 180 days after the date of the Prospectus, offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any Common Shares (or any securities convertible into, exercisable for, or exchangeable for any shares of Common Shares) owned by him, without the prior written consent of Oppenheimer & Co., Inc.

(o) All necessary action has been duly and validly taken by the Company to authorize the execution, delivery and performance of this Agreement and the issuance and sale of the Shares and the Company Directed Shares by the Company. Each of this Agreement, the Management Agreement and the Purchase Agreements has been duly and validly authorized, executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and (ii) to the extent that rights to indemnity or contribution under this Agreement may be limited by Federal and state securities laws or the public policy underlying such laws.

(p) The Company is not involved in any labor dispute nor, to the knowledge of the Company, is any such dispute threatened, which dispute would have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

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(q) No transaction has occurred between or among the Company and any of its affiliates or any of its officers, trust managers or five percent shareholders or any affiliate or affiliates of any such officer, trust manager or five percent shareholder that is required to be described in and is not described in the Registration Statement and the Prospectus.

(r) Neither the Company nor, to the best knowledge of the Company, any affiliate of the Company or any other person acting on its or their behalf has directly or indirectly (i) used any of its funds for any unlawful payment to any foreign or domestic governmental or judicial officials or employees, (ii) made any unlawful payment (including any bribe, rebate, payoff, kickback or influence payment) to any person or entity, private or public, whether in the form of cash, property, services or otherwise, (iii) violated or is in violation of any provision of federal or state laws relating to corruption of governmental officials or representatives, including the Foreign Corrupt Practices Act of 1977 and similar laws, (iv) established or maintained any fund of monies or other assets for the purposes specified in clauses (i) or (ii) above or (v) made any false or fictitious entry on the books or records of the Company relating to any payment referred to in clauses (i) or (ii) above.

(s) The Company has not taken, nor will it take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Common Shares to facilitate the sale or resale of any of the Shares.

(t) The Company has filed all Federal, state and local tax returns which are required to be filed through the date hereof, or has received extensions thereof, and has paid all taxes shown on such returns and all assessments received by them to the extent that the same are material and have become due.

(u) The Company is not and, upon sale of the Shares to be issued and sold thereby in accordance herewith and the sale of the Company Directed Shares pursuant to the Purchase Agreements and the application of the net proceeds to the Company of such sales as described in the Prospectus under the caption "Use of Proceeds," will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(v) The Shares and the Company Directed Shares have been approved for listing on the American Stock Exchange, and a registration statement has been filed on Form 8-A pursuant to Section 12 of the Exchange Act for the Shares and the Company Directed Shares, which registration statement complies in all material respects with the Exchange Act.

(w) The Company has complied with all of the requirements and filed the required forms as specified in Florida Statutes Section 517.075.

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(x) The Company has complied and intends to continue to comply with the requirements of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Company is qualified as a real estate investment trust under the Code. The method of operation of the Company's business as described in the Registration Statement and the Prospectus is in conformity with the requirements for qualification as a real estate investment trust under the Code.

5. Representations and Warranties of PMC Advisers. PMC Advisers makes the same representations and warranties as the Company set forth under Sections 4(a) above, and further represents to, warrants to and agrees with each of the several Underwriters that:

(a) PMC Advisers has been duly organized, is validly existing and is in good standing as a corporation under the laws of the State of Texas, with full power and authority to own or lease its properties and conduct its business as described in the Prospectus and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which such qualification is required (except where the failure so to qualify would not have a material adverse effect on the ability of PMC Advisers to conduct its business with respect to the Company as described in the Prospectus), and has all power and authority necessary to perform its advisory services with respect to the Company as described in the Prospectus.

(b) PMC Advisers is duly registered and in good standing with the Commission under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and all applicable state laws, as an investment adviser. PMC Advisers is not prohibited by the Advisers Act, or the rules and regulations under such Act, or applicable state law, from acting for the Company under the Management Agreement as contemplated by the Prospectus.

(c) The description of each of PMC Advisers and PMC Capital, Inc., the sole shareholder of PMC Advisers ("PMC Capital"), in the Prospectus is true and correct and does not 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 in light of the circumstances under which they were made.

(d) This Agreement and the Management Agreement have each been duly authorized, executed and delivered by PMC Advisers and each constitutes the valid and binding obligation of PMC Advisers and is enforceable against PMC Advisers in accordance with its terms. No consent, approval, authorization or order of, or filing with, any court or governmental agency or body or financial institution is required for the execution, delivery and performance of this Agreement or the Management Agreement by PMC Advisers or the consummation by PMC Advisers of the transactions contemplated hereby or thereby, except such as have been obtained under the Securities Act, the Exchange Act, the Advisers Act or applicable state securities laws in connection with the purchase and distribution of the Shares by the Underwriters.

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(e) Neither the execution, delivery and performance of this Agreement or the Management Agreement by PMC Advisers nor the consummation of any of the transactions contemplated hereby or thereby (including, without limitation, the issuance and sale by the Company of the Shares and the Company Directed Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of PMC Advisers pursuant to the terms of, any indenture, mortgage, deed of trust or other agreement or instrument to which PMC Advisers is a party or by which it or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to PMC Advisers or violate any provision of the articles of incorporation or by-laws of PMC Advisers, except for such consents or waivers which have already been obtained and are in full force and effect.

(f) Except as described in the Registration Statement and the Prospectus, there is no litigation or governmental proceeding to which PMC Advisers or PMC Capital is a party or to which any property of PMC Advisers or PMC Capital is subject or which is pending or, to the knowledge of PMC Advisers, contemplated against PMC Advisers or PMC Capital which might result in any material adverse change in the condition (financial or other), results of operations, business or prospects of PMC Advisers or which is required to be disclosed in the Registration Statement and the Prospectus.

(g) Except as described in or contemplated by the Registration Statement and the Prospectus, (A) there has not been any material adverse change in, or adverse development which materially affects, the condition (financial or other), results of operation, business or prospects, of PMC Advisers as of the date of the Prospectus and (B) there have been no transactions entered into by PMC Advisers that are material to PMC Advisers other than those in the ordinary course of business.

(h) All financial and statistical information data set forth in the Registration Statement and Prospectus relating to PMC Capital are accurately presented and prepared on a basis consistent with the books and records of PMC Capital.

(i) Neither PMC Advisers nor PMC Capital has taken, directly or indirectly, any action designed to or that might reasonably by expected to cause or result in stabilization or manipulation of the price of the Common Shares to facilitate the sale or resale of the Shares.

(j) PMC Capital has received an Exemptive Order pursuant to Section 6(c) of the Investment Company Act of 1940 which exempts PMC Capital from the provisions of Section 12(d)(3) of such Act and permits PMC Capital to establish PMC Advisers as a registered adviser under the Advisers Act and pursuant to Section 17(d) of the Investment Company Act of 1940 and Rule 17d-1 thereunder which permits

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PMC Advisers to provide advisory services to the Company (the "Exemptive Order"). The Exemptive Order is in full force and effect, and no proceeding to withdraw the Exemptive Order has been instituted or, to the knowledge of PMC Advisers, is threatened. PMC Capital and PMC Advisers are in compliance with the terms of the Exemptive Order.

6. Conditions of the Underwriters' Obligations. The obligations of the Underwriters under this Agreement are several and not joint. The respective obligations of the Underwriters to purchase the Shares are subject to each of the following terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 7(A)(a) of this Agreement.

(b) No order preventing or suspending the use of any preliminary prospectus or the Prospectus shall have been or shall be in effect and no order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the Commission, and any requests for additional information on the part of the Commission (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of the Representatives.

(c) Subsequent to the effective date of this Agreement, there shall not have occurred (i) any change, or any development involving a prospective change, in or affecting the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company, PMC Advisers or PMC Capital not contemplated by the Prospectus, which in your opinion, as Representatives of the several Underwriters, would materially adversely affect the market for the Shares, or (ii) any event or development relating to or involving the Company, PMC Advisers or PMC Capital, any officer or trust manager of the Company or officer or director of PMC Advisers or PMC Capital, which makes any statement made in the Prospectus untrue or which, in the opinion of the Company and its counsel or the Underwriters and their counsel, requires the making of any addition to or change in the Prospectus in order to state a material fact required by the Securities Act or any other law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectus to reflect such event or development would, in your opinion, as Representatives of the several Underwriters, adversely affect the market for the Shares.

(d) The representations and warranties of the Company and PMC Advisers contained in this Agreement and in the certificates delivered pursuant to Section 6(e) shall be true and correct when made and on and as of each Closing Date as if made on such date and the Company shall have performed all covenants and agreements and satisfied all the conditions contained in this Agreement required to be performed or satisfied by it at or before such Closing Date.

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(e) The Representatives shall have received on each Closing Date (i) a certificate, addressed to the Representatives and dated such Closing Date, of the chief executive officer and the chief financial officer or chief accounting officer of the Company to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus and this Agreement and that the representations and warranties of the Company in this Agreement are true and correct on and as of such Closing Date with the same effect as if made on such Closing Date and the Company has performed all covenants and agreements and satisfied all conditions contained in this Agreement required to be performed or satisfied by it at or prior to such Closing Date, and (ii) a certificate, addressed to the Representatives and dated such Closing Date, of the chief executive officer and the chief financial or chief accounting officer of PMC Advisers to the effect that the representations and warranties of PMC Advisers in this Agreement are true and correct on and as of such Closing Date with the same effect as if made on such Closing Date and PMC Advisers has performed all covenants and agreements and satisfied all conditions contained in this Agreement required to be performed or satisfied by it at or prior to such Closing Date.

(f) The Representatives shall have received at the time this Agreement is executed and on each Closing Date a signed letter from Coopers & Lybrand, addressed to the Representatives and dated, respectively, the date of this Agreement and each such Closing Date, in form and substance reasonably satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Securities Act and the Rules, that the response to Item 28 of the Registration Statement is correct insofar as it relates to them and stating in effect that:

(i) in their opinion the audited financial statements and financial statement schedules included in the Registration Statement and the Prospectus and reported on by them and the unaudited financial statements for the period ended March 31, 1996 included in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Rules, and were prepared on a consistent basis;

(ii) On the basis of a reading of the amounts included in the Registration Statement and the Prospectus under the headings "Summary Financial and Operating Information" and "Selected Financial Data," carrying out certain procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter, a reading of the minutes of the meetings of the shareholders and trust managers of the Company, and inquiries of certain officials of the Company who have responsibility for financial and accounting matters of the Company as to transactions and events subsequent to the date of the latest audited financial statements, except as disclosed in the Registration Statement and the Prospectus, nothing came to their attention which caused them to believe that:

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(A) the amounts shown in "Summary Financial and Operating Data" and "Selected Financial Data" included in the Registration Statement and the Prospectus do not agree with the corresponding amounts in the audited financial statements from which such amounts were derived; or (B) with respect to the period subsequent to March 31, 1996, there were, at a specified date not more than five business days prior to the date of the letter, any increases in the current liabilities and long-term liabilities of the Company or any decreases in total assets or the shareholders' equity of the Company, as compared with the amounts shown on the Company's unaudited balance sheet at March 31, 1996 included in the Registration Statement, except for changes set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company to the significance thereof unless said explanation is not deemed necessary by the Representatives; and

(iii) they have performed certain other procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company) set forth in the Registration Statement and the Prospectus and reasonably specified by the Representatives agrees with the accounting records of the Company.

References to the Registration Statement and the Prospectus in this paragraph (f) are to such documents as amended and supplemented at the date of the letter.

(g) The Representatives shall have received on each Closing Date from Winstead, Sechrest & Minick P.C., counsel for the Company, an opinion, addressed to the Representatives and dated such Closing Date, and stating in effect that:

(i) The Company is a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of Texas. The Company is qualified as a real estate investment trust under the Texas Real Estate Investment Trust Act and the rules and regulations thereunder, and the Company's method of operation as described in the Registration Statement and Prospectus will enable it to continue to meet the requirements for qualification as a real estate investment trust under such act. The Company is duly qualified and in good standing in each jurisdiction in which the character or location of its assets or properties (owned, leased or licensed) or the nature of its businesses makes such qualification necessary, except for such jurisdictions where the failure to so qualify would not have a material adverse effect on the assets or properties, business, results of operations, prospects or conditions (financial or otherwise) of the Company. To the best of such counsel's knowledge, except as described in the Prospectus, the Company does not own, directly or indirectly, any interest in, or control, directly or indirectly, any corporation, partnership, joint venture, association or other business organization.

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(ii) The Company has all requisite power and authority to own, lease and license its assets and properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus; and the Company has all requisite power and authority and all necessary authorizations, approvals, consents, orders, licenses, certificates and Permits to enter into, deliver and perform this Agreement and the Management Agreement and to issue and sell the Shares and the Company Directed Shares (other than those required under state securities and Blue Sky laws, as to which such counsel need express no opinion).

(iii) The Company has authorized and issued shares of beneficial interest as set forth in the Registration Statement and the Prospectus; the certificates evidencing the Shares conform to the requirements of the Texas Real Estate Investment Trust Act and have been duly authorized for issuance by the Company; all of the outstanding Common Shares of the Company have been duly and validly authorized and have been duly and validly issued and are fully paid and nonassessable and none of them was issued in violation of any preemptive or other similar right. The Shares, when issued and sold pursuant to this Agreement, and the Company Directed Shares, when issued and sold pursuant to the Purchase Agreements, will be duly and validly issued, outstanding, fully paid and, except as disclosed in the Prospectus, nonassessable and none of them will have been issued in violation of any preemptive or other similar right. To the best of such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and no commitment, plan or arrangement to issue, any shares of beneficial interest of the Company or any security convertible into, exercisable for, or exchangeable for shares of beneficial interest of the Company. Except as described in the Registration Statement and the Prospectus, such counsel does not know of any holder of any securities of the Company or any other person who has the right, contractual or otherwise, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares or the right to have any Common Shares or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require registration under the Securities Act of any Common Shares or other securities of the Company. The authorized shares of beneficial interest (including the Shares) conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus.

(iv) The agreement of the Company's trust managers and officers stating that for a period of 180 days from the date of the Prospectus they will not, without the prior written consent of Oppenheimer & Co., Inc., offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any Common Shares (or any securities convertible into, exercisable for, or exchangeable for any Common Shares) owned by them has been duly and validly delivered by such persons and constitutes the legal,

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valid and binding obligation of each such person enforceable against each such person in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(v) All necessary action has been duly and validly taken by the Company to authorize the execution, delivery and performance of this Agreement, the Management Agreement and the issuance and sale of the Shares and the Company Directed Shares. Each of this Agreement and the Management Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (A) as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and (B) to the extent that rights to indemnity or contribution under this Agreement may be limited by Federal or state securities laws or the public policy underlying such laws.

(vi) Neither the execution, delivery and performance of this Agreement or the Management Agreement by the Company (including, without limitation, the issuance and sale by the Company of the Shares and the Company Directed Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or any event which with notice or lapse of time, or both, would constitute a default) under, or require consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company pursuant to the terms of any indenture, mortgage, deed of trust, note or other agreement or instrument of which such counsel is aware and to which the Company is a party or by which the Company or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to the Company or violate any provision of the declaration of trust or by-laws of the Company.

(vii) To the best of such counsel's knowledge, no default exists, and no event has occurred which with notice or lapse of time, or both, would constitute a default, in the due performance and observance of any term, covenant or condition by the Company of any indenture, mortgage, deed of trust, note or any other agreement or instrument to which the Company is a party or by which it or any of its assets or properties or businesses may be bound or affected, where the consequences of such default would have a material and adverse effect on the assets, properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

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(viii) To the best of such counsel's knowledge, the Company is not in violation of any term or provision of its declaration of trust or by-laws and is not in violation of any term or provision of any Permit, judgment, decree, order, statute, rule or regulation, where the consequences of such violation would have a material and adverse effect on the assets or properties, businesses, results of operations, prospects or condition (financial or otherwise) of the Company.

(ix) No consent, approval, authorization or order of any court or governmental or regulatory agency or body is required for the performance of this Agreement or the Management Agreement by the Company or the consummation of the transactions contemplated hereby or thereby, except such as have been obtained under the Securities Act and the Rules or the Exchange Act and such as may be required under state securities or Blue Sky laws (as to which such counsel need not express any opinion) in connection with the purchase and distribution of the Shares by the several Underwriters.

(x) To the best of such counsel's knowledge, there is no litigation or governmental or other proceeding or investigation, before any court or before or by any public body or board, pending or threatened against, or involving the assets, properties or businesses of, the Company or any of its officers, trust managers or five percent shareholders which if adversely determined could have a material adverse effect upon the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company.

(xi) The descriptions in the Registration Statement and Prospectus of statutes, legal and governmental proceedings, contracts and other documents are accurate and fairly present the information required to be shown; and such counsel do not know of any statutes or legal or governmental proceedings required to be described in the Prospectus that are not described as required, or of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement that are not described and filed as required.

(xii) The Registration Statement, all preliminary prospectuses and the Prospectus and each amendment or supplement thereto (except for the financial statements and schedules and other financial and statistical data included therein, as to which such counsel expresses no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules.

(xiii) The Registration Statement has become effective under the Securities Act, the Prospectus has been filed as required by Section 6(a) hereof, and to the knowledge of such counsel no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been instituted or threatened, pending or contemplated.

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(xiv) The Shares and the Company Directed Shares have been approved for listing on the American Stock Exchange and a registration statement has been filed pursuant to Section 12 of the Exchange Act and has been declared effective.

(xv) The Company is not, and upon sale of the Shares and the Company Directed Shares and the application of the net proceeds therefrom as described in the Prospectus under the caption "Use of Proceeds" will not be, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xvi) The information in the Registration Statement and Prospectus under the caption "Federal Income Tax Considerations" has been reviewed by such counsel and is accurate in all material respects and does not omit to state any material matter of law relating to the taxation of the Company and its shareholders.

(xvii) The Company is qualified as a real estate investment trust under the Code and the rules and regulations thereunder, and the Company's method of operation as described in the Registration Statement and Prospectus will enable it to continue to meet the requirements for taxation as a real estate investment trust under the Code and the rules and regulations thereunder.

To the extent deemed advisable by such counsel, they may rely as to matters of fact on certificates of responsible officers of the Company and public officials and on the opinions of other counsel satisfactory to the Representatives as to matters which are governed by laws other than the laws of the State of Texas and the Federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representatives and counsel for the Underwriters.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the Representatives and representatives of the independent certified public accountants of the Company, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus (except as specified in the foregoing opinion), on the basis of the foregoing, no facts have come to the attention of such counsel which lead such counsel to believe that the Registration Statement at the time it became effective (except with respect to the financial statements and

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notes and schedules thereto and other financial data, as to which such counsel need express no belief or opinion) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as amended or supplemented (except with respect to the financial statements and notes and schedules thereto and other financial data, as to which such counsel need make no statement) as of its date and as of the Firm Shares Closing Date or the Option Shares Closing Date contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) The Representatives shall have received on each Closing Date from Winstead, Sechrest & Minick P.C., counsel for PMC Advisers, an opinion, addressed to the Representatives and dated such Closing Date, and stating in effect that:

(i) PMC Advisers has been duly organized, is validly existing as a corporation and is in good standing under the laws of the State of Texas. PMC Advisers is duly qualified and in good standing in each jurisdiction in which the character or location of its assets or properties (owned, leased or licensed) or the nature of its businesses makes such qualification necessary, except for such jurisdictions where the failure to so qualify would not have a material adverse effect on the assets or properties, business, results of operations, prospects or conditions (financial or otherwise) of PMC Advisers. To the best of such counsel's knowledge, PMC Advisers does not own, directly or indirectly, any interest in, or control, directly or indirectly, any corporation, partnership, joint venture, association or other business organization.

(ii) PMC Advisers has all requisite power and authority to own, lease and license its assets and properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus; and PMC Advisers has all requisite power and authority and all necessary authorizations, approvals, consents, orders, licenses, certificates and Permits to enter into, deliver and perform this Agreement and the Management Agreement.

(iii) All necessary action has been duly and validly taken by PMC Advisers to authorize the execution, delivery and performance of this Agreement and the Management Agreement. Each of this Agreement and the Management Agreement has been duly and validly authorized, executed and delivered by PMC Advisers and constitutes the legal, valid and binding obligation of PMC Advisers enforceable against PMC Advisers in accordance with its terms, except (A) as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and (B) to the extent that rights to indemnity or contribution under this Agreement may be limited by Federal or state securities laws or the public policy underlying such laws.

(iv) Neither the execution, delivery and performance of this Agreement or the Management Agreement by PMC Advisers will give rise to a right to terminate or accelerate the due date of any payment due under, or

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conflict with or result in the breach of any term or provision of, or constitute a default (or any event which with notice or lapse of time, or both, would constitute a default) under, or require consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of PMC Advisers pursuant to the terms of any indenture, mortgage, deed of trust, note or other agreement or instrument of which such counsel is aware and to which PMC Advisers is a party or by which PMC Advisers or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to PMC Advisers or violate any provision of the articles of incorporation or by-laws of PMC Advisers.

(v) PMC Advisers is duly registered with the Commission under the Advisers Act as an investment adviser and is not prohibited by the Advisers Act, or the rules and regulations thereunder, from acting as an investment adviser for the Company under the Management Agreement as contemplated by the Prospectus. The Management Agreement complies with all applicable provisions of the Advisers Act.

(vi) To the best of such counsel's knowledge, no default exists, and no event has occurred which with notice or lapse of time, or both, would constitute a default, in the due performance and observance of any term, covenant or condition by PMC Advisers of any indenture, mortgage, deed of trust, note or any other agreement or instrument to which PMC Advisers is a party or by which it or any of its assets or properties or businesses may be bound or affected, where the consequences of such default would have a material and adverse effect on the assets, properties, business, results of operations, prospects or condition (financial or otherwise) of PMC Advisers.

(vii) To the best of such counsel's knowledge, PMC Advisers is not in violation of any term or provision of its articles of incorporation or by-laws and is not in violation of any term or provision of any Permit, judgment, decree, order, statute, rule or regulation, where the consequences of such violation would have a material and adverse effect on the assets or properties, businesses, results of operations, prospects or condition (financial or otherwise) of PMC Advisers.

(viii) No consent, approval, authorization or order of any court or governmental or regulatory agency or body is required for the performance of this Agreement or the Management Agreement by PMC Advisers or the consummation of the transactions contemplated hereby or thereby, except such as have been obtained under the Advisers Act.

(ix) To the best of such counsel's knowledge, there is no litigation or governmental or other proceeding or investigation, before any court or before or by any public body or board pending or threatened against, or involving the

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assets, properties or businesses of, PMC Advisers or any of its officers or directors or its shareholder which if adversely determined could have a material adverse effect upon the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of PMC Advisers.

(x) PMC Capital has obtained the Exemptive Order, which is in full force and effect and, to the best of such counsel's knowledge, no proceeding to withdraw the Exemptive Order has been instituted or is threatened.

(i) All proceedings taken in connection with the sale of the Firm Shares and the Option Shares as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives and their counsel and the Underwriters shall have received from Simpson Thacher & Bartlett a favorable opinion, addressed to the Representatives and dated such Closing Date, with respect to the Shares, the Registration Statement and the Prospectus, and such other related matters, as the Representatives may reasonably request, and the Company shall have furnished to Simpson Thacher & Bartlett such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(j) The Representatives shall have received on each Closing Date a certificate, addressed to the Representatives, and dated such Closing Date, of an executive officer of the Company to the effect that the signer of such certificate has reviewed and understands the provisions of Section 517.075 of the Florida Statutes, and represents that the Company has complied, and at all times will comply, with all provisions of Section 517.075 and further, that as of such Closing Date, neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba.

7. Covenants of the Company. (A) The Company covenants and agrees as follows:

(a) The Company shall prepare the Prospectus in a form approved by the Representatives and file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act, and shall promptly advise the Representatives (i) when any amendment to the Registration Statement shall have become effective, (ii) of any request by the Commission for any amendment of the Registration Statement or the Prospectus or for any additional information, (iii) of the prevention or suspension of the use of any preliminary prospectus or the Prospectus or of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (v) of the happening of any event during the period when a Prospectus

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relating to the States is required to be delivered under the Securities Act that in the judgment of the Company makes any statement made in the Registration Statement or Prospectus untrue or that requires the making of any changes in the Registration Statement or the Prospectus in order to make the statements therein, in light of the circumstances in which they are made, not misleading. The Company shall not file any amendment of the Registration Statement or supplement to the Prospectus unless the Company has furnished the Representatives a copy for its review prior to filing and shall not file any such proposed amendment or supplement to which the Representatives reasonably object. The Company shall use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(b) Within the time period during which the Prospectus relating to the Shares is required to be delivered under the Securities Act, the Company shall comply with all requirements imposed on it by the Securities Act and the Rules so far as is necessary to permit the continuance of sales or dealings in the Shares as contemplated hereby and by the Registration Statement and the Prospectus. If, at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act and the Rules, any event occurs as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend or supplement the Prospectus to comply with the Securities Act or the Rules, the Company promptly shall prepare and file with the Commission, subject to the second sentence of paragraph (a) of this Section 7(A), an amendment or supplement which shall correct such statement or omission or an amendment which shall effect such compliance.

(c) The Company shall make generally available to its security holders and to the Representatives as soon as practicable, but not later than 45 days after the end of the 12-month period beginning at the end of the fiscal quarter of the Company during which the Effective Date occurs (or 90 days if such 12-month period coincides with the Company's fiscal year), an earnings statement (which need not be audited) of the Company, covering such 12-month period, which shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 of the Rules.

(d) The Company shall furnish to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement (including all exhibits thereto and amendments thereof) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and all amendments thereof and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Securities Act or the Rules, as many copies of any preliminary prospectus and the Prospectus and any amendments thereof and supplements thereto as the Representatives may reasonably request.

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(e) The Company shall use its reasonable best efforts to qualify, and shall cooperate with the Representatives and their counsel in endeavoring to qualify, the Shares for offer and sale under the laws of such jurisdictions as the Representatives may designate and shall maintain such qualifications in effect so long as required for the distribution of the Shares; provided, however, that the Company shall not be required in connection therewith, as a condition thereof, to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation as doing business in any jurisdiction.

(f) For a period of five years after the date of this Agreement, the Company shall supply to the Representatives, and to each other Underwriter who may so request in writing, copies of such financial statements and other periodic and special reports as the Company may from time to time distribute generally to the holders of any class of its shares of beneficial interest and to furnish to the Representatives a copy of each annual or other report it shall be required to file with the Commission (including any Report on Form SR required by Rule 463 of the Rules).

(g) Without the prior written consent of the Representatives, for a period of 180 days after the date of the Prospectus, the Company shall not issue, sell or register with the Commission (other than on Form S-8 or on any successor form), or otherwise dispose of, directly or indirectly, any shares of beneficial interest of the Company (or any securities convertible into or exercisable or exchangeable for equity securities of the Company), except for the issuance of the Shares pursuant to the Registration Statement, the issuance of Company Directed Shares pursuant to the Purchase Agreements and the issuance of shares pursuant to the Company's existing share option plans. In the event that during this period, (i) any shares are issued pursuant to the Company's existing share option plans or (ii) any registration is effected on Form S-8 or on any successor form, the Company shall obtain the written agreement of such grantee or purchaser or holder of such securities that, for a period of six months after the date of the Prospectus, such person will not, without the prior written consent of the Representatives, offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, or exercise any registration rights with respect to, any Common Shares (or any securities convertible into, exercisable for, or exchangeable for any shares of Common Shares) owned by such person.

(h) On or before completion of this offering, the Company shall make all filings required under applicable securities laws and by the American Stock Exchange (including any required registration under the Exchange Act).

(i) The Company will apply the net proceeds from the sale of the Shares to be sold by it hereunder and the sale of the Company Directed Shares to be sold pursuant to the Purchase Agreements substantially in accordance with the description set forth in the Prospectus. The Company shall take all steps as shall be necessary to

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ensure that the Company shall not become an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(j) The Company shall use its best efforts to do and perform all things required or necessary to be done and performed under this Agreement by the Company prior to the Firm Shares Closing Date or Option Share Closing Date, as the case may be, and to satisfy all conditions precedent to the delivery of the Shares.

(k) For its taxable year ending December 31, 1995 and for all subsequent taxable years, the Company will elect to qualify as a real estate investment trust under the Code and will use its best efforts to continue to meet the requirements of the Code and the Texas Real Estate Investment Trust Act to qualify as a real estate investment trust.

(l) The Company will maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(B) The Company agrees to pay, or reimburse if paid by the Representatives, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the public offering of the Shares and the performance of the obligations of the Company under this Agreement, including without limitation those relating to: (i) the preparation, printing, filing and distribution of the Registration Statement, including all exhibits thereto, each preliminary prospectus, the Prospectus, all amendments and supplements to the Registration Statement and the Prospectus, and the printing, filing and distribution of this Agreement; (ii) the preparation and delivery of certificates for the Shares to the Underwriters; (iii) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the various jurisdictions referred to in Section 7 (A) (e), including the reasonable fees and disbursements of counsel for the Underwriters in connection with such registration and qualification and the preparation, printing, distribution and shipment of preliminary and supplementary Blue Sky memoranda; (iv) the furnishing (including costs of shipping and mailing) to the Representatives and to the Underwriters of copies of each preliminary prospectus, the Prospectus and all amendments or supplements to the Prospectus, and of the several documents required by this Section to be so furnished, as may be reasonably requested for use in connection with the offering and sale of the Shares by the Underwriters or by dealers to whom Shares may be sold; (v) the filing fees of the National Association of Securities Dealers, Inc. in connection with its review of the terms of the public offering; (vi) the furnishing (including costs of shipping and mailing) to the Representatives and to the Underwriters of copies of all reports and information required by Section 7(A)(f); (vii)

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inclusion of the Shares and the Company Directed Shares for listing on the American Stock Exchange; and (viii) all transfer taxes, if any, with respect to the sale and delivery of the Shares by the Company to the Underwriters. Subject to the provisions of Section 10, the Underwriters agree to pay, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Underwriters under this Agreement not payable by the Company pursuant to the preceding sentence, including, without limitation, the fees and disbursements of counsel for the Underwriters.

8. Indemnification.

(a) The Company agrees to indemnity and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal fees and expenses of one counsel representing all the Underwriters (except for certain situations set forth in Section 8(d) where separate counsel is permitted, in which case indemnification hereunder shall cover the reasonable legal fees and expenses of all such counsel) and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other Federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment thereof or supplement thereto, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that such indemnity shall not inure to the benefit of any Underwriter (or any person controlling such Underwriter) on account of any losses, claims, damages or liabilities arising from the sale of the Shares to any person by such Underwriter if such untrue statement or omission or alleged untrue statement or omission was made in such preliminary prospectus, the Registration Statement or the Prospectus, or such amendment or supplement, in reliance upon and in conformity with information furnished in writing to the Company by the Representatives on behalf of any Underwriter specifically for use therein; and provided further that the indemnification contained in this Section 8(a) with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) on account of any such loss, claim, damage, liability or expense arising from the sale of the Shares by such Underwriter to any person if a copy of the Prospectus shall not have been delivered or sent to such person within the time required by the Securities Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such preliminary prospectus was corrected in the Prospectus, provided that the Company has delivered the Prospectus to the several Underwriters in requisite quantity on a timely basis to permit such delivery or sending. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

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In addition to its other obligations under this Section 8(a), the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in this Section 8(a), it will reimburse the Underwriters on a monthly basis for all reasonable legal fees and expenses of one counsel representing all the Underwriters (except for certain situations set forth in Section 8(d) where separate counsel is permitted, in which case reimbursement hereunder shall cover the reasonable legal fees and expenses of all such counsel) and other reasonable expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceedings, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return it to the Company, together with interest, compounded daily, determined on the basis of the prime rate (or other commercial lending rate for borrowers of the highest credit standing) announced from time to time by Citibank, N.A. (the "Prime Rate"). Any such interim reimbursement payments which are not made to you within 30 days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in this paragraph (a), including the amounts of any requested reimbursement payments and the method of determining such amounts, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration shall be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration shall not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice shall be authorized to do so. Such arbitration shall be limited to the operation of the interim reimbursement provisions contained in this paragraph (a) and shall not resolve the ultimate propriety or enforceability of the other obligations created by this Section 8.

(b) PMC Advisers agrees to indemnity and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal fees and expenses of one counsel representing all the Underwriters (except for certain situations set forth in Section 8(d) where separate counsel is permitted, in which case indemnification hereunder shall cover the reasonable legal fees and expenses of all such counsel) and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other Federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon (i) any untrue statement or alleged untrue statement made by PMC Advisers

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in Section 5 of this Agreement or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment thereof or supplement thereto, or arising out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading with respect to PMC Advisers and PMC Capital; provided, however, that such indemnity shall not inure to the benefit of any Underwriter (or any person controlling such Underwriter) on account of any losses, claims, damages or liabilities arising from the sale of the Shares to any person by such Underwriter if such untrue statement or omission or alleged untrue statement or omission was made in such preliminary prospectus, the Registration Statement or the Prospectus, or such amendment or supplement, in reliance upon and in conformity with information furnished in writing to the Company by the Representatives on behalf of any Underwriter specifically for use therein; and provided further that the indemnification contained in this Section 8(b) with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) on account of any such loss, claim, damage, liability or expense arising from the sale of the Shares by such Underwriter to any person if a copy of the Prospectus shall not have been delivered or sent to such person within the time required by the Securities Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such preliminary prospectus was corrected in the Prospectus, provided that the Company has delivered the Prospectus to the several Underwriters in requisite quantity on a timely basis to permit such delivery or sending. This indemnity agreement will be in addition to any liability which PMC Advisers may otherwise have.

(c) Each Underwriter agrees, severally and not jointly, to indemnity and hold harmless the Company, PMC Advisers, each person, if any, who controls the Company or PMC Advisers within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each trust manager of the Company, each director of PMC Advisers, and each officer of the Company who signs the Registration Statement to the same extent as the foregoing indemnity from the Company and PMC Advisers to each Underwriter, but only insofar as such losses, claims, damages or liabilities arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which was made in. any preliminary prospectus, the Registration Statement or the Prospectus, or any amendment thereof or supplement thereto, contained in the paragraph relating to stabilization on the inside front cover page of the Prospectus and the statements contained under the caption "Underwriting" in the Prospectus; provided, however, that the obligation of each Underwriter to indemnity the Company and PMC Advisers (including any controlling person, trust manager, director or officer thereof) shall be limited to the net proceeds received by the Company from such Underwriter.

(d) Any party that proposes to assert the right to be indemnified under this Section will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section, notify each such indemnifying party of the commencement of such action, suit or proceeding, enclosing a copy of all papers served. No indemnification provided for in Section 8(a), 8(b) or 8(c) shall be available to any party who

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shall fail to give notice as provided in this Section 8(d) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was prejudiced by the failure to give such notice but the omission so to notify such indemnifying party of any such action, suit or proceeding shall not relieve it from any liability that it may have to any indemnified party for contribution or indemnification otherwise than under this Section. In case any such action, suit or proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and the approval by the indemnified party of such counsel, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, except as provided below and except for the reasonable costs of investigation subsequently incurred by such indemnified party in connection with the defense thereof. The indemnified party shall have the right to employ its counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party has been authorized in writing by the indemnifying parties, (ii) the indemnified party shall have reasonably concluded that there may be a conflict of interest between the indemnifying parties and the indemnified party in the conduct of the defense of such action (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iii) the indemnifying parties shall not have employed counsel to assume the defense of such action within a reasonable time after notice of the commencement thereof, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying parties. An indemnifying party shall not be liable for any settlement of any action, suit, proceeding or claim effected without its written consent. The Company and PMC Advisers will not, without the prior written consent of the Representatives, settle, compromise or consent to the entry of any judgment in any pending or threatened action, suit, proceeding or claim in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person controlling such Underwriter is a party to such action, suit, proceeding or claim), unless such settlement, compromise or consent includes an unconditional release of each Underwriter and each controlling person of such Underwriters from all liability relating to the matters arising from such action, suit, proceeding or claim.

9. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 8 is due in accordance with its terms but for any reason is held to be unavailable from the Company, PMC Advisers or the Underwriters, the Company, PMC Advisers and the Underwriters shall contribute to the aggregate losses, claims, damages and liabilities (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by the Company and PMC Advisers from persons other than the Underwriters, such as persons who control the Company or PMC Advisers within the meaning of the Securities Act, officers of the Company who signed the Registration Statement, trust managers of the Company and directors of PMC Advisers, who may also be liable for contribution) to which

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the Company, PMC Advisers and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company and PMC Advisers on the one hand and the Underwriters on the other from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 8 hereof, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and PMC Advisers on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and PMC Advisers and the Underwriters shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts but before deducting expenses) received by the Company, as set forth in the table on the cover page of the Prospectus, bear to (y) the underwriting discounts received by the Underwriters, as set forth in the table on the cover page of the Prospectus, respectively. The relative fault of the Company and PMC Advisers or the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact related to information supplied by the Company and PMC Advisers or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, PMC Advisers and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 9, (i) in no case shall any Underwriter (except as may be provided in the Agreement Among Underwriters) be liable or responsible for any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter hereunder, and (ii) the Company and PMC Advisers shall be liable and responsible for any amount in excess of such underwriting discount; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 9, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company or PMC Advisers within the meaning of the Section 15 of the Securities Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed the Registration Statement, each trust manager of the Company and each director of PMC Advisers shall have the same rights to contribution as the Company and PMC Advisers, subject in each case to clauses (i) and (ii) in the immediately preceding sentence of this Section 9. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section, notify such party or parties from whom contribution may be sought, but the omission so to notify such party or parties from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section. No party shall be liable for contribution with respect to any action, suit, proceeding or claim settled without its written

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consent. The Underwriters' obligations to contribute pursuant to this Section 9 are several in proportion to their respective underwriting commitments and not joint.

10. Termination. This Agreement may be terminated with respect to the Shares to be purchased on a Closing Date by the Representatives by notifying the Company at any time

(a) in the absolute discretion of the Representatives at or before any Closing Date: (i) if on or prior to such date, any domestic or international event or act or occurrence has materially disrupted, or in the opinion of the Representatives will in the future materially disrupt, the securities markets; (ii) if there has occurred any new outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representatives, inadvisable to proceed with the offering; (iii) if there shall be such a material adverse change in general financial, political or economic conditions or the effect of international conditions on the financial markets in the United States is such as to make it, in the reasonable judgment of the Representatives, inadvisable or impracticable to market the Shares; (iv) if trading in the Shares has been suspended by the Commission or trading generally on the New York Stock Exchange, Inc. or on the American Stock Exchange, Inc. has been suspended or limited, or minimum or maximum ranges for prices for securities shall have been fixed, or maximum ranges for prices for securities have been required, by said exchanges or by order of the Commission, the National Association of Securities Dealers, Inc., or any other governmental or regulatory authority; or (v) if a banking moratorium has been declared by any state or Federal authority, or

(b) at or before any Closing Date, that any of the conditions specified in Section 6 shall not have been fulfilled when and as required by this Agreement.

If this Agreement is terminated pursuant to any of its provisions, the Company and PMC Advisers shall not be under any liability to any Underwriter, and no Underwriter shall be under any liability to the Company or PMC Advisers, except that (y) if this Agreement is terminated by the Representatives or the Underwriters because of any failure, refusal or inability on the part of the Company or PMC Advisers to comply with the terms or to fulfill any of the conditions of this Agreement, the Company will reimburse the Underwriters for all out-of-pocket expenses (including the reasonable fees and disbursements of their counsel) incurred by them in connection with the proposed purchase and sale of the Shares or in contemplation of performing their obligations hereunder and (z) no Underwriter who shall have failed or refused to purchase the Shares agreed to be purchased by it under this Agreement, without some reason sufficient hereunder to justify cancellation or termination of its obligations under this Agreement, shall be relieved of liability to the Company or to the other Underwriters for damages occasioned by its failure or refusal.

11. Substitution of Underwriters. If one or more of the Underwriters shall fail (other than for a reason sufficient to justify the cancellation or termination of this Agreement under Section 10) to purchase on any Closing Date the Shares agreed to be

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purchased on such Closing Date by such Underwriter or Underwriters, the Representatives may find one or more substitute underwriters to purchase such Shares or make such other arrangements as the Representatives may deem advisable or one or more of the remaining Underwriters may agree to purchase such Shares in such proportions as may be approved by the Representatives, in each case upon the terms set forth in this Agreement. If no such arrangements have been made by the close of business on the business day following such Closing Date,

(a) if the number of Shares to be purchased by the defaulting Underwriters on such Closing Date shall not exceed 10% of the Shares that all the Underwriters are obligated to purchase on such Closing Date, then each of the nondefaulting Underwriters shall be obligated to purchase such Shares on the terms herein set forth in proportion to their respective obligations hereunder; provided, that in no event shall the maximum number of Shares that any Underwriter has agreed to purchase pursuant to Section 1 be increased pursuant to this Section 11 by more than one-ninth of such number of Shares without the written consent of such Underwriter, or

(b) if the number of Shares to be purchased by the defaulting Underwriters on such Closing Date shall exceed 10% of the Shares that all the Underwriters are obligated to purchase on such Closing Date, then the Company shall be entitled to an additional business day within which it may, but is not obligated to, find one or more substitute underwriters reasonably satisfactory to the Representatives to purchase such Shares upon the terms set forth in this Agreement.

In any such case, either the Representatives or the Company shall have the right to postpone the applicable Closing Date for a period of not more than five business days in order that necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus) may be effected by the Representatives and the Company. If the number of Shares to be purchased on such Closing Date by such defaulting Underwriter or Underwriters shall exceed 10% of the Shares that all the Underwriters are obligated to purchase on such Closing Date, and none of the nondefaulting Underwriters or the Company shall make arrangements pursuant to this Section within the period stated for the purchase of the Shares that the defaulting Underwriters agreed to purchase, this Agreement shall terminate with respect to the Shares to be purchased on such Closing Date without liability on the part of any nondefaulting Underwriter to the Company or PMC Advisers and without liability on the part of the Company or PMC Advisers, except in both cases as provided in Sections 7(B), 8, 9 and 10. The provisions of this Section shall not in any way affect the liability of any defaulting Underwriter to the Company, PMC Advisers or the nondefaulting Underwriters arising out of such default. A substitute underwriter hereunder shall become an Underwriter for all purposes of this Agreement.

12. Miscellaneous. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of PMC Advisers or its officers and of the Underwriters set forth in or made pursuant to this Agreement shall remain in full force and effect, regardless of any investigation made by or on behalf of any

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Underwriter, the Company or PMC Advisers or any of the officers, trust manager, directors or controlling persons referred to in Sections 8 and 9 hereof, and shall survive delivery of and payment for the Shares. The provisions of Sections 7(B), 8, 9 and 10 shall survive the termination or cancellation of this Agreement.

This Agreement has been and is made for the benefit of the Underwriters and the Company and their respective successors and assigns, and, to the extent expressed herein, for the benefit of persons controlling any of the Underwriters, or the Company, and trust managers and officers of the Company, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include any purchaser of Shares from any Underwriter merely because of such purchase.

All notices and communications hereunder shall be in writing and mailed or delivered or by telephone or telegraph if subsequently confirmed in writing, (a) if to the Representatives, c/o Oppenheimer & Co., Inc., Oppenheimer Tower, World Financial Center, New York, New York 10281 Attention: Mark Biderman, and (b) if to the Company, to its agent for service as such agent's address appears on the cover page of the Registration Statement.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflict of laws.

This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

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Please confirm that the foregoing correctly sets forth the agreement among us.

Very truly yours,

PMC COMMERCIAL TRUST

By:

Lance B. Rosemore
President and
Chief Executive Officer

PMC ADVISERS, INC.

By:

Lance B. Rosemore
President and
Chief Executive Officer

Confirmed:

OPPENHEIMER & CO., INC.
FAHNESTOCK & CO., INC.
J.C. BRADFORD & CO.

Acting severally on behalf of itself
and as representative of the several
Underwriters named in Schedule I
annexed hereto.

By OPPENHEIMER & CO., INC.

By:

SCHEDULE I

Name	Number of Firm Shares to Be Purchased
Oppenheimer & Co., Inc.	
J.C. Bradford & Co...	
Fahnestock & Co., Inc...	
	2,000,000

Exhibit 4

[FRONT OF STOCK CERTIFICATE]

BENEFICIAL INTEREST | ORGANIZED UNDER THE LAWS OF THE STATE OF TEXAS | BENEFICIAL INTEREST

NUMBER | SHARES

THIS CERTIFICATE IS TRANSFERABLE IN THE CITY OF NEW YORK, NEW YORK | SEE REVERSE FOR CERTAIN DEFINITIONS

CUSIP 693434 10 2

THIS CERTIFIES THAT

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF BENEFICIAL INTEREST OF THE PAR VALUE OF $.01 EACH OF

PMC COMMERCIAL TRUST

transferable only on the books of the Trust by the holder hereof in person or by duly authorized attorney upon the surrender of this certificate is properly endorsed. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal and the facsimile signatures of the duly authorized officers of the Trust.

Dated

PMC COMMERCIAL TRUST
TRUST
SEAL
TEXAS
1993

PRESIDENT | ASSISTANT SECRETARY

[BACK OF STOCK CERTIFICATE]

PMC COMMERCIAL TRUST

The following abbreviations, when used in the inscription of the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as tenants in common

UNIF TRAN MIN ACT -- _____ Custodian _____
(Cust) (Minor)
under Uniform Transfers to Minors Act _____
(State)

Additional abbreviations may also be used though not in the above list.

For Value Received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares of the beneficial interest represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney to transfer the said shares of beneficial interest on the books of the within named Trust with full power of substitution in the premises.

Dated:_____

_____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed by:

_____

Exhibit 5

5400 Renaissance Tower
1201 Elm Street
Dallas, Texas 75270-2199

WINSTEAD
SECHREST
& MINICK
A Professional Corporation
Attorneys & Counselors

(214) 745-5400
Telecopier (214) 745-5390

DALLAS HOUSTON AUSTIN
MEXICO CITY

Direct Dial:
214/745-5274

June 7, 1996

PMC Commercial Trust
17290 Preston Road, 3rd Floor
Dallas, Texas 75252

Ladies and Gentlemen:

We have acted as counsel to PMC Commercial Trust (the "Company") in connection with the registration and sale under the Securities Act of 1933, as amended (the "Securities Act"), by the Company of 2,060,000 common shares of beneficial interest, par value $.01 per share (the "Common Shares") (plus an underwriters' over-allotment option for 300,000 Common Shares, collectively, the "Offered Shares") pursuant to a Registration Statement on Form S-11 (File No. 333-2757) (the "Registration Statement"). In our capacity as counsel to the Company, we have participated in various proceedings relating to the Company and we are familiar with its affairs. In addition, we have examined the records of the Company and such other records, instruments and documents as we have deemed necessary as a basis for this opinion. Based upon such participation and examination, we are of the opinion that the Offered Shares have been duly and validly authorized and, when issued against payment of the consideration therefor, will be legally authorized, fully-paid and non-assessable.

The opinions expressed herein are as of the date hereof, and are based upon facts and conditions presently known to us, the assumptions set forth herein and the laws and regulations currently in effect, and we do not undertake and hereby disclaim, any obligation to advise you of any change with respect to any matter set forth herein.

The opinions expressed herein are limited to the laws of the State of Texas and the laws of the United States of America.

We express no opinion as to any matter other than as is expressly set forth herein, and no opinion is to, or may, be inferred or implied herefrom.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to us under the heading "Legal Matters" in the prospectus contained therein. In giving our consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Securities and Exchange Commission thereunder.

Yours very truly,

WINSTEAD SECHREST & MINICK P.C.

By: /s/ Kenneth L. Betts

Kenneth L. Betts

Exhibit 8

5400 Renaissance Tower
1201 Elm Street
Dallas, Texas 75270-2199

WINSTEAD
SECHREST
& MINICK
A Professional Corporation
Attorneys & Counselors

(214) 745-5400
Telecopier (214) 745-5390

DALLAS HOUSTON AUSTIN
MEXICO CITY

Direct Dial:
214/745-5274

June 7, 1996

PMC Commercial Trust
17290 Preston Road
Dallas, Texas 75252

Ladies and Gentlemen:

We have acted as counsel to PMC Commercial Trust (the "Company") in connection with the Registration Statement on Form S-11 (No. 333-2757), initially filed with the Securities and Exchange Commission on April 23, 1996, as amended (the "Registration Statement"). This opinion relates (i) to the Company's qualification for federal income tax purposes as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), for taxable years beginning with the taxable year ending December 31, 1996 and (ii) to the accuracy of the information contained in the "FEDERAL INCOME TAX CONSIDERATIONS" section of the Registration Statement to the extent it constitutes matters of law or legal conclusions.

For the purpose of rendering our opinion, we have examined and are relying upon the truth, accuracy and completeness, at all relevant times, of the statements and representations contained in the following documents:

Item 1. The Declaration of Trust and the Bylaws of the Company;

Item 2. The Registration Statement;

Item 3. Representations made to us by the Company through Messrs. Jan F. Salit, Executive Vice President and Chief Investment Officer, and Barry N. Berlin, Chief Financial Officer, in that certain Certificate to Counsel Regarding Certain Real Estate Investment Trust Qualification Requirements (the "Certificate") dated of even date herewith and delivered to us in connection with the Registration Statement and this letter.

In connection with rendering this opinion, we have assumed to be true and are relying upon, without any independent investigation or review thereof, the following:

1. The authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as copies, and authenticity of the originals of such documents.

2. The genuineness of all signatures, the due authorization, execution and delivery of all documents by all parties thereto and the due authority of all persons executing such documents.

3. The Company filed a proper election to be taxed as a REIT with its timely filed federal income tax return for the taxable year ending December 31, 1993, and that the Company has not caused such election to be terminated or revoked.

Based on our examination of the foregoing items and our review of such other documents and information pertaining to the Company as we have deemed appropriate, subject to the assumptions, limitations and qualifications set forth herein, we are of the opinion that (i) if the Company is operated as described in the Registration Statement and in the Certificates, the Company will be able to qualify as a REIT under the Code for its taxable year ending December 31, 1996 and for subsequent taxable years, provided that after the date hereof, the Company continues to be organized and operated as described in its Registration Statement and in the Certificates, and therefore continues to satisfy the income tests, asset tests, and distribution, shareholder, record keeping and other applicable REIT requirements under the Code as summarized in the Registration Statement, and (ii) the information in the prospectus included in the Registration Statement under the caption "FEDERAL INCOME TAX CONSIDERATIONS," to the extent it constitutes matters of law or legal conclusions, is correct in all material respects.

In addition to the matters set forth above, this opinion is subject to the following exceptions, limitations and qualifications:

1. Our opinion expressed herein is based upon our interpretation of the existing provisions of the Code and existing judicial decisions, administrative regulations, published revenue rulings and revenue procedures. Our opinion is not binding upon the Internal Revenue Service or courts and there is no assurance that the Internal Revenue Service will not challenge the conclusions set forth herein. No assurance can be given that future legislative, judicial or administrative changes, on either a prospective or retroactive basis, would not adversely affect the accuracy of the conclusions stated herein. We undertake no obligation to advise you of changes in law which may occur after the date hereof.

2. Our opinion is limited to the United States federal income tax matters addressed herein, and no other opinions are rendered with respect to any other matter not specifically set forth in the foregoing opinion.

In the event any one of the statements, representations, or assumptions we have relied upon to issue this opinion is incorrect in a material respect, our opinion might be adversely affected and may not be relied upon.

We hereby consent to the reference to us under the caption "FEDERAL INCOME TAX CONSIDERATIONS" in the Registration Statement, and to the filing of this opinion as an Exhibit to the Registration Statement.

Very truly yours,

WINSTEAD SECHREST & MINICK P.C.

By: /s/ Thomas R. Helfand

Thomas R. Helfand

Exhibit 10.1

INVESTMENT MANAGEMENT AGREEMENT

This Investment Management Agreement (the "Agreement") dated this 31st day of December, 1995 by and between PMC Commercial Trust, a Texas real estate investment trust (the "Company"), and PMC Advisers, Inc., a Texas corporation ("PMC Advisers" or the "Investment Manager"), a wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital").

A. 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 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.

"Common Equity Capital" shall mean the sum of the stated capital plus the additional paid-in capital for the Common Shares.

"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 paragraph 2 of this Agreement.

"Person" shall mean an individual, corporation, partnership, association, trust or any unincorporated organization or other entity.

"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.

B. PURPOSE OF THE COMPANY

The Company intends primarily to originate business loans (i) 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, (ii) in excess of $1,100,000 to small business enterprises without regard to SBA eligibility requirements, (iii) for which PMC Capital does not have available funds to make such loans or (iv) 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"). At least 75% of the assets of the Company will be invested in the Primary Investments and up to 25% of the assets of the Company may be invested by the Company in Other Investments provided that such Other Investments do not affect the ability of the Company to maintain its qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended.

Concurrently with the execution of this Agreement, the Company, PMC Advisers, 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 Advisers 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.

C. THE INVESTMENT MANAGER

PMC Advisers shall act as the investment adviser to the Company, registered under the Investment Advisers Act of 1940, as amended. The Company hereto engages the services of PMC Advisers as the Company's Investment Manager.

D. OBLIGATIONS OF THE INVESTMENT MANAGER

As the Investment Manager, PMC Advisers will:

(1) 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;

(2) provide the Company with office space and services to the extent required by the Company's trust managers, officers and employees;

(3) maintain the Company's books of account and other records and files;

(4) 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;

(5) undertake its obligations pursuant hereto and any other activities undertaken by PMC Advisers 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;

(6) 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 Investments acquired to be delivered to the Company's custodian;

(7) on a continuing basis, monitor, manage and service the Company's Investments; and

(8) arrange debt and equity financing for the Company, subject to policies adopted by the Company's trust managers.

E. 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:

(1) 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;

(2) 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

(3) 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 paragraph 5.

F. 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:

(i) all expenses of the Company's organization and of any offering and sale by the Company of its shares;

(ii) expenses of the Company operations, except as otherwise provided in paragraph 5 above;

(iii) financing costs and debt service with respect to indebtedness of the Company;

(iv) taxes on income and taxes and assessments on real property, if any, and all other taxes applicable to the Company;

(v) 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;

(vi) expenses of organizing, revising, amending, converting, modifying or terminating the Company;

(vii) 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;

(viii) 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 paragraph 5 above;

(ix) all insurance costs incurred in connection with the Company (including officer and trust manager liability insurance, if any);

(x) 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;

(xi) 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;

(xii) transfer agent's, registrar's and indenture trustee's fees and charges;

(xiii) legal, accounting and auditing fees and expenses; and

(xiv) 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.

G. 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. 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 paragraph. In the event that any trust manager should disagree, the matter shall be conclusively resolved by a majority of the trust managers, including a majority of the Independent Trust Managers.

H. 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:

Quarterly in arrears, a base fee ("Base Fee") consisting of a quarterly servicing fee of .125% of the Average Quarterly Value of All Assets and a quarterly advisory fee of .25% of the Average Quarterly Value of All Invested Assets. In addition, commencing January 1, 1996 for each calendar year during which the Company's annual Return on Average Common Equity Capital after deduction of the Base Fee (the "Actual Return") exceeds 6.69% (the "Minimum Return"), the Company will pay the Investment Manager an additional advisory fee (the "Annual Fee") equal to the product determined by multiplying the Average Annual Value of All Invested Assets by a percentage equal to the difference between the Actual Return and the Minimum Return, up to a maximum of one percent (1%) per annum. The Annual Fee will be earned only to the extent that the annual Return on Average Common Equity Capital after deduction of the Base Fee and Annual Fee is at least equal to the Minimum Return. All such advisory fees will be reduced by fifty percent (50%) with respect to the value of Invested Assets that exceed common shareholders' equity as a result of leverage. Notwithstanding the foregoing or any other provision contained herein, the Base Fee and Annual 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, or by any Person wholly-owned (directly or indirectly) by the Company to any third party which is unaffiliated with the Company or the Investment Manager for the servicing of (i) any Invested Assets or (ii) any assets included within the definition of "Average Quarterly Value of All Assets."

The Company will pay such fees as soon as practicable after the values of the Company's assets as of the end of each calendar quarter and each year have been determined by its trust managers. If the commencement or termination of the Investment Manager's services hereunder does not coincide with the first or last day, as the case may be, of a calendar quarter, then any fee determined in accordance with this paragraph shall be multiplied by the ratio of the number of days in such quarter during which the Investment Manager rendered services to the total number of days in such quarter that this Agreement was in effect.

Notwithstanding any other provision of this Agreement to the contrary, for the six month period following 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), no additional servicing fees will be charged by the Investment Manager with respect to the proceeds received from such public offering. In addition, the proceeds of any such offering will not be included in Common Equity Capital for determining the reduction of the Annual Fee as a result of leverage for such six month period.

I. 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 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.

J. TERM OF THE AGREEMENT; TERMINATION

The term of this Agreement shall commence on the first day of January 1996 and shall remain in effect and is renewable annually thereafter by the Company, if (i) a majority of the Independent Trust Managers determines that (A) the Investment Manager's performance has been satisfactory and (B) the terms of this Agreement are appropriate in light of the Company's performance and then existing economic conditions and (ii) 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. Such termination, in the case of the Company, 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, by a majority vote of the independent directors of the Investment Manager.

K. ASSIGNMENT, AMENDMENTS AND WAIVERS

The Company may terminate this Agreement at any time in the event of its assignment by the Investment Manger 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 paragraph, 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.

L. 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.

M. 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.

N. 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.

O. 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.

P. 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 Internal Revenue Code of 1986, as amended, 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 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 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.

Q. 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 paragraph 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 paragraph 17 shall be reported to the Company annually within ninety (90) days following the end of the Company's fiscal year.

R. 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.

S. 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.

T. JURISDICTION

This Agreement shall be governed by the laws of Texas.

U. 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.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

PMC ADVISERS, INC.	PMC COMMERCIAL TRUST
By: /s/ Lance B. Rosemore	By: /s/ Lance B. Rosemore
Lance B. Rosemore	Lance B. Rosemore
President	President

EXHIBIT 10.8

MARKETING/RESERVE AGREEMENT

U.S. FRANCHISE SYSTEMS, INC.

AND

PMC COMMERCIAL TRUST

MARKETING/RESERVE AGREEMENT

THIS MARKETING/RESERVE AGREEMENT (this "Agreement") made and entered into between U.S. FRANCHISE SYSTEMS, INC., a Delaware Corporation (hereinafter referred to as "USFS"), with its principal office located at 13 Corporate Square, Suite 250, Atlanta, Georgia 30329 and PMC COMMERCIAL TRUST, a Texas real estate investment trust (hereinafter referred to as "PCC"), with its principal office located at 17290 Preston Road, 3rd Floor, Dallas, Texas 75252.

W I T N E S S E T H:

WHEREAS, USFS is a franchising company that owns the franchise rights to the "Microtel" motels ("Microtel"); and

WHEREAS, PCC is, among other things, engaged in the business of lending money for purposes of acquiring, constructing, owning and operating motels; and

WHEREAS, USFS and PCC desire that USFS present to franchisees, PCC's financing programs for the purpose of providing financing to USFS's franchisees for the acquisition of land ("Franchise Property") and/or construction of Microtel motels (the Franchise Property with all buildings and other improvements thereon hereinafter called the "Franchise Facility");

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

SECTION 1. MARKETING:

1.1. PROVISION OF INFORMATION TO FRANCHISE APPLICANTS. USFS agrees to present to each Applicant for a Microtel motel franchise "Franchisee"), PCC's then available financing programs for providing financing for the acquisition of the Franchise Property and/or construction of a Microtel motel (herein "PCC Loans" or the "Loans" and the Note issued in connection therewith referred to as the "PCC Note").

1.2. APPLICATIONS FOR PCC LOANS. USFS and PCC must both agree in writing that an application for a loan by any Franchisee shall be covered by this Agreement. All applications for PCC Loans ("Loan Applications") shall be presented on forms provided by PCC and shall contain such information and data as PCC may from time to time require in connection with its review and approval of Loan Applications from Franchisees.

1.3. ACCEPTANCE OR REJECTION OF A LOAN.

(a) PCC agrees to accept or reject each Loan Application within five (5) business days after actual receipt (exclusive of

the date of receipt) of a fully complete and documented Loan Application package in form and substance satisfactory to PCC. Any completed Loan Application which has not been accepted by PCC within five (5) business days after the date of receipt of a complete Loan Application shall be deemed to have been rejected. A determination of the completeness of a Loan Application made by PCC in good faith shall be final and binding on all concerned parties.

(b) USFS and PCC acknowledge and agree that PCC shall have and retain the sole authority, discretion, and responsibility to approve or disapprove any Loan Application and to establish the terms, provisions and conditions, including collateral requirements and the terms and conditions of any and all personal or corporate guarantees, on all PCC Loans and Loan Applications submitted or processed under this Agreement.

1.4. LOAN APPROVAL PROCESS. PCC, at its cost and expense, shall perform such due diligence and conduct such verification of information and data pertaining to an applicant Franchisee, including verification of information and data provided by the Franchisee, Franchisee's representatives and third-party sources (such as Franchisee's accountants, credit bureaus, appraisers, environmental consultants, etc.) as PCC shall deem appropriate. USFS shall not participate in the underwriting or approval of any Loan Application submitted to PCC. It is understood and agreed that PCC shall have and will exercise sole and absolute discretion and authority in approving or rejecting any Loan Application and establishing all terms, provisions, and conditions of any Loan approved by PCC. With respect to each approved Franchisee PCC will provide USFS copies of documents and instruments related to the PMC Loan, as directed by the maker of such Loan; excluding, however, PCC's work product and proprietary information.

1.5. LOAN APPROVAL AND CLOSING. Upon approval of a Loan Application, PCC will notify Franchisee and USFS of its acceptance and the terms and conditions under which the Loan will be made. Thereafter, PCC will use reasonable business efforts to complete the origination, processing, closing and disbursement of the PCC Loan.

1.6. PCC AS HOLDER OF LOAN DOCUMENTS. When the PCC Loan has been closed in accordance with the terms and conditions of the Loan commitment issued by PCC, PCC will disburse the proceeds of such PCC Loan to or on behalf of the Franchisee, whereupon PCC shall become the holder of the Franchisee's promissory note and all other loan documents associated with the PCC Loan (the "Loan Documents").

1.7. SERVICING, MONITORING AND LIQUIDATION OF LOANS. PCC will be responsible for collecting and receiving all installments of principal and interest, escrow payments and other payments made on any PCC Loan. Except as otherwise specifically provided or modified by the terms and provisions of this Agreement, all servicing, monitoring and liquidation functions shall be the responsibility of PCC, and PCC shall have and may exercise sole and absolute discretion and authority in carrying out such functions.

1.8. ACTIONS BY PCC. PCC, and each of its agents and employees, is authorized to accept and act upon any documents, information or data provided by or on behalf of an applicant Franchisee which it in good faith believes to be genuine, true or correct, without independent verification, and shall not be liable for any error of judgment or for any act done or omitted by it in good faith in connection with underwriting review, approval, rejection, closing, administration or servicing of a PCC Loan for a Franchisee, unless the same is occasioned by the willful misconduct or gross negligence of PCC or its employees or agents.

SECTION 2. COMPENSATION FOR MARKETING SERVICES:

2.1. COMPENSATION FOR MARKETING SERVICES.

(a) As full compensation for all marketing services rendered by USFS pursuant to this Agreement, PCC shall credit to the Reserve Account (as hereinafter defined) an amount equal to three-eighths (3/8%) percent per year (the "Marketing Fee") times the average principal balances of outstanding and performing PCC Loans originated under this Agreement, calculated as of the end of each calendar quarter (March, June, September and December) based upon the average principal balances of such outstanding and performing Loans during the immediate preceding three month period; provided, however, that the Marketing Fee shall be reduced by one-half to three-sixteenths (3/16%) percent per year to the extent that transactions (both performing and non-performing loans) originated under this Agreement exceed, on the date the amount of such Marketing Fee is to be calculated, seventy (70%) percent of the net proceeds from the stock offering referred to in Section 7 hereof.

(b) The Marketing Fee shall apply only to the principal balances of PCC Loans which are outstanding and not in monetary default by the original borrower/maker (the "Borrower") at the end of each calendar quarter for which the Marketing Fee calculation is made.

(c) The amount of the Marketing Fee due USFS shall be calculated and credited to the Reserve Account within fifteen (15)

days after the end of each calendar quarter and PCC shall promptly thereafter provide USFS a report showing the calculation of the Marketing Fee for the quarter. The excess, if any, of the funds held in the Segregated Reserve Account (as hereinafter defined) over the Required Reserve Amount (as hereafter defined) resulting from crediting the amount of the Marketing Fee to the Reserve Account shall be paid to USFS quarterly, within thirty (30) days after the quarter-end, and will be transmitted to USFS together with the quarterly report containing the calculation of the Marketing Fee.

SECTION 3. LOAN FUNDS AND RESERVE ACCOUNT:

3.1. RESERVE ACCOUNT

(a) Upon the date that the first loan commitment is issued by PCC to a Franchisee under this Agreement, USFS shall deposit the sum of One Hundred Thousand ($100,000) Dollars with PCC, which, together with the Marketing Fees credited thereto quarterly and the additions to be made by USFS as hereinafter provided, will be held by and under the control of PCC in a Reserve Account (herein the "Reserve Account") to secure payment and performance of the PCC Loans and pay any losses suffered by PCC on non-performing and/or foreclosed Loans.

(b) From and after such time as the principal amount outstanding (after giving effect to principal repayments) on all PCC Loans plus the total undisbursed principal amount of all Loans on which PCC has commenced any funding (herein such cumulative amount is referred to as the "Proforma Principal Amount") equals or exceeds Five Million ($5,000,000) Dollars, USFS shall deposit with PCC, within five (5) days following the date the first advance is made by PCC on a Loan, an amount equal to two (2%) percent of the Proforma Principal Amount of each such Loan. Such deposit amounts shall be held, applied and/or disbursed as a part of the Reserve Account.

(c) All Marketing Fees earned by USFS will be credited to the Reserve Account and held, applied and/or disbursed by PCC as provided in this Agreement, until such time (determined on a calendar quarter basis) as the Reserve Account balance equals or exceeds the Required Reserve Amount (as hereinafter defined in paragraph 3.3), at which time and during the continuance thereof the excess, if any, will be remitted to USFS as provided in paragraph 3.3 of this Agreement.

3.2. SEGREGATED RESERVE ACCOUNT.

(a) The funds paid or credited to the Reserve Account

will be placed by PCC in a Segregated Reserve Account (the "SRA") which may be invested by PCC in eligible instruments or accounts (the "Eligible Investments") identified in Exhibit "A" hereto.

(b) All income earned from Eligible Investments shall be credited to the Reserve Account quarterly and the report provided by PCC to USFS on a quarterly basis will reflect income earned on the SRA balance through reported quarter.

3.3. REQUIRED RESERVE AMOUNT; PAYMENTS OF EXCESS TO USFS. USFS and PCC agree that the term "Required Reserve Amount" shall mean the greater of (i) One Hundred Thousand ($100,000) Dollars, or (ii) an amount found by multiplying two (2%) percent times the Proforma Principal Amount on performing and non-performing Loans originated pursuant to this Agreement, excepting only those PCC Loans covered by the provisions of Section 3.4 hereof. In the event and to the extent that the balance of the SRA, after deducting therefrom (i) accrued and unpaid interest on non-performing Loans and (ii) actual costs and expenses incurred in connection with non-performing Loans exceeds the Required Reserve Amount as of the end of a calendar quarter, such excess amount shall be remitted by PCC to USFS within thirty (30) days following the end of the quarter for which the calculation is made.

3.4. TRANSACTIONS EXCLUDED FROM RESERVE REQUIREMENTS. USFS and PCC agree that the two (2%) percent reserve deposit required from USFS for PCC Loans shall be waived with respect to transactions with verifiable loan to value (LTV) ratios of seventy (70%) percent or less [i.e. with thirty (30%) percent or more equity invested]. USFS agrees that the LTV calculation shall be based upon the lesser of (i) actual verifiable cost, or (ii) appraised value as determined by a qualified appraiser approved by PCC. Notwithstanding the above waiver of the reserve deposit requirements for transactions with LTV ratios of seventy (70%) percent or less, USFS and PCC agree that all other terms and provisions of this Agreement shall apply to such transactions, including without limitation the provisions of Section 2 applicable to Marketing Fees and Section 4 relating the availability of the Reserve Account to cover any losses incurred in connection with such Loans.

3.5. DEFICIENCY IN RESERVE ACCOUNT. If losses, costs and expenses resulting from defaults by Franchisees on PCC Loans at any time exceed the funds available in the Reserve Account for the payment of such losses, costs and expenses, all Marketing Fees and deposits made pursuant to paragraph 3.2(b) shall be retained by or paid to PCC until such time as any deficiency in the Reserve Account shall be paid in full before any such amounts shall be deposited in or credited to the Reserve Account, including the SRA.

SECTION 4. NON-PERFORMING LOANS; REMARKETING:

4.1. DEFAULT ON PCC LOAN BY FRANCHISEE.

(a) In the event that a Franchisee defaults under its Loan and/or the Loan Documents and PCC forecloses, accepts a reconveyance in lieu of foreclose, or otherwise takes possession of the Franchise Facility, PCC shall notify USFS and USFS shall:

(i) From and after the earlier of the date PCC forecloses or the date PCC receives possession of a Franchise Facility, pay to PCC monthly from NOI (as hereinafter defined) generated by the facility, with any deficiency made-up by USFS, within ten (10) days after the end of each calendar month, the installments of principal and interest (based upon the principal installments and interest rate contained in the PCC Note) and other amounts provided in the Loan Documents;

(ii) Promptly begin and utilize reasonable commercial efforts to remarket the Franchise Facility of the defaulting Franchisee;

(iii) Operate and maintain, or cause the Franchise Facility to be operated and maintained by an affiliate of USFS, in ordinary course of business; and

(iv) Observe and comply with Franchisee's obligations under the Loan Documents to maintain insurance on and with respect to the Franchise Facility. The insurance required to be maintained by USFS must be available on commercially reasonable terms and shall include policies of fire and extended coverage and general public liability insurance and be in such amounts, with such coverages as are usual and customary in the industry for properties of a size and type substantially similar to the Franchise Facility of the defaulting Franchisee. PCC shall be named an additional insured, mortgagee and/or loss payee, as its interest shall appear, on all such insurance policies.

(b) The obligations of USFS provided in paragraph 4.1(a) above and rights to remarket the Franchise Facility shall continue

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for a period not to exceed twelve (12) months following earlier of the date PCC forecloses or the date PCC receives possession of the Franchise Facility, or such later date as USFS and PCC shall agree in writing. Any resale or remarketing of a Franchise Facility by or at direction of USFS shall be subject to the prior approval of PCC, which approval will not be unreasonably withheld.

4.2. REMARKETING AND SALE OF FRANCHISE FACILITY.

(a) Upon any resale or remarketing of a Franchise Facility by USFS directly, or by or through a Franchisee or others at the direction or under the control of USFS, pursuant to Section 4.1(a)(ii) of this Agreement, PCC shall automatically and immediately receive from the proceeds of the sale the following amounts, and the excess, if any, received by PCC from the sale, shall, subject to satisfaction of the conditions of Paragraph 4.2(c), be placed in the Reserve Account:

(i) The principal balance of the Loan outstanding at the date of sale;

(ii) All accrued and unpaid interest through the date of sale;

(iii) All legal fees and collection costs paid or incurred by PCC since the default by the Franchisee and through the date of sale; and

(iv) All other costs and expenses incurred or paid by PCC under or pursuant to the PCC Note and Loan Documents, including, without limitation, any and all amounts advanced or paid for insurance, taxes, etc. with respect to the Franchise Facility.

(b) In the event the proceeds from the sale of the Franchise Facility are insufficient to pay or reimburse PCC the total of all amounts provided in Subsections 4.2(a)(i) through (iv) [herein the amount of such insufficiency is referred to as the "Deficiency on Resale"], PCC shall have the right to immediately withdraw from the Reserve Account an amount sufficient to satisfy in full the Deficiency on Resale.

(c) Provided that USFS has (i) closed the sale of the Franchise Facility of a defaulting Franchisee within twelve (12) months after the earlier date that PCC forecloses or receives possession thereof, (ii) has timely made the payments required by Section 4.1(a) of this Agreement, and (iii) the amounts provided in Subsection 4.2(a)(i) through (iv) above are received by PCC at the

time of sale, USFS shall be entitled to have immediately credited to the Reserve Account all excess proceeds resulting from USFS's resale or remarketing of a Franchise Facility.

4.3. COOPERATION BY PCC. USFS and PCC acknowledge that for USFS to operate and remarket or resale a Franchise Facility, as contemplated in paragraph 4.1(a) hereof, will require that PCC foreclose or otherwise take possession of the Franchise Facility pursuant to the Loan Documents. PCC agrees to cooperate with USFS in its efforts to remarket or sale and/or operate the Franchise Facility of a defaulting Franchisee, and will, subject to laws of the applicable jurisdiction, take such action as USFS may reasonably request to foreclose upon or otherwise secure possession of such Franchise Facility, and thereafter permit USFS, or its affiliate, to operate and maintain the Franchise Facility for the period and, as anticipated by Section 4.1 and as may be permitted by the Loan Documents and subject to any applicable laws; provided, however, that USFS shall be responsible for and pay or reimburse PCC out of the proceeds of the sale of such Franchise Facility or from the Reserve Account all reasonable out-of-pocket costs and expenses incurred or paid in connection with any such action or proceeding undertaken by PCC at the request of USFS.

4.4. NO THIRD-PARTY BENEFICIARIES. The provisions of Section 4 of this Agreement, are for the exclusive benefit of USFS, its successors, assigns and affiliates, and PCC, its successors, assigns and affiliates (including any holder of the PCC Note and Loan Documents) and no other person or entity, including any defaulting Franchisee, shall be entitled to rely upon or to enforce, in whole or part, any provisions or covenants contained in Section 4 of this Agreement or to any credit or reduction in amounts due or owing under any PCC Loan as a result of any receipts by PCC from any source, including payments made by USFS or any amounts paid to PCC from the Reserve Account.

SECTION 5. DEFAULTS AND REMEDIES.

(a) Each of the following shall constitute an Event of Default under this Agreement:

(i) Default by USFS in the payment to PCC of any amount provided under Subsections 4.1(a)(i) or failure by USFS to pay for the insurance required by 4.1(a)(iv) of the Agreement, when and as due, which default remains uncured for a period of thirty (30) days following written notice from PCC; or

(ii) Failure of USFS to make any payment to the Reserve Account required by Section 3.1 of this Agreement, when and as due, which failure remains uncured for a period of ten (10) days following the due date; or

(iii) Failure of USFS to begin and use reasonable commercial efforts in remarketing of a Franchise Facility as provided in Subsection 4.1(a)(ii), or the failure of USFS to perform or comply with the provisions of Subsection 4.1(a)(iii) and any such failure continues uncured for a period of thirty (30) days following written notice from PCC; or

(iv) USFS shall (A) become insolvent, (B) make an assignment for the benefit of creditors, (C) call a meeting of creditors for the composition of debts, or (D) there shall be filed by or against USFS a petition in bankruptcy or for reorganization (whether under the Bankruptcy Code of 1978 or other federal or state bankruptcy or insolvency law), which filing is not dismissed within thirty (30) days, or (E) a custodian, receiver or agent is appointed or authorized to take charge of any of the properties of USFS; or

(v) USFS shall voluntarily abandon its business operations.

(b) Upon the occurrence of an Event of Default under Section 5(a) of this Agreement, PCC may, at its election and in its discretion, exercise any one or more of the following rights and remedies, each of which shall be cumulative and nonexclusive, and may be exercised concurrently or consecutively:

(i) Upon any default by USFS under Subsections 5(a)(i) or (ii), declare all monetary obligations of USFS under Sections 3.1 and 4.1 to be immediately due and payable, whereupon, all such monetary obligations shall automatically be and become immediately due and payable, without further notice or demand and PCC shall have the right, at its option, to proceed forthwith to collect the total amount due from USFS and concurrently, proceed as provided in Subsection 5(b)(iii) hereof;

(ii) Upon any default by USFS under Subsection 5(a)(iii), terminate the right of USFS to operate and/or remarket or resell a Franchise Facility, and thereafter proceed with the remarketing or sale of the Franchise Facility and concurrently withdraw funds held in the Reserve Account to pay and satisfy installments and other amounts due and coming due under the defaulted PCC Loan and related Loan Documents and to reimburse or pay all costs and expenses paid or incurred by PCC in connection with remarketing and/or sale of the Franchise Facility; provided, however, that USFS shall remain liable to PCC for the deficiency, if any, between the net operating income ("NOI") of the Franchise Facility received by PCC and principal and interest installments due PCC (based upon the interest rate contained in the PCC Note) for the twelve (12) months period following the date PCC forecloses or receives possession of such Franchise Facility, whichever is earlier; or

(iii) Upon any sale or disposition of a Franchise Facility by PCC in connection with a default by a Franchisee and while USFS is in default of the covenants and conditions in this Agreement with respect to such Franchise Facility, PCC may apply any part or all of the Reserve Account, as appropriate, to pay and satisfy any deficiency remaining under the PCC Note and Loan Documents after the said sale of the Franchise Facility; or

(iv) If an Event of Default under Subsections 5(a)(i), (ii), (iv) or (v) has occurred and is continuing, PCC may, at its election and without further notice or demand to USFS, immediately terminate this Agreement as to all future liabilities or obligations of PCC [other than the indemnification obligation of PCC under Section 9.4(b)] and all rights of USFS hereunder, and thereupon, all monies due or coming due to USFS pursuant to this Agreement, whether as Marketing Fees or otherwise, together with all funds in the Reserve Account (including funds on deposit in the SRA) and any interest therein, shall be and automatically become the property of PCC

and shall be retained by PCC, as partial liquidating damages. USFS shall and does hereby agree to waive and release any interest in or claim or right to any such funds or the Reserve Account upon the occurrence of an Event of Default and termination by PCC as provided in this paragraph. USFS shall remain liable an shall pay, on demand, all amounts owing to PCC pursuant to Section 3.1, plus the deficiency, if any, between the NOI of defaulted Franchise Facilities received by PCC for the twelve (12) month period following the earlier date that PCC forecloses or the date PCC receives possession of each defaulted Franchise Facility and the principal and interest installments due PCC on defaulted Loans pursuant to Subsection 4.1(a)(i) of this Agreement.

(c) Notwithstanding, any provision in this Agreement to the contrary or in conflict, upon the occurrence of an Event of Default by USFS as provided in Section 5 and the sale of a Franchise Facility by PCC, all excess proceeds received from any such sale, to the extent not required to be paid to the original Borrower or maker of the PCC Note, shall be and become the property of PCC without any requirement to account to USFS for such surplus from the sale.

SECTION 6. TERM AND TERMINATION:

6.1. TERM.

(a) This Agreement shall become effective upon the date of full execution by the parties hereto (the "Effective Date") as reflected in Section 9.13 and shall continue until the earlier to occur of:

(i) The date of cancellation by either party upon giving thirty (30) days prior written notice from one party to the other; or

(ii) The date of termination by PCC as provided in Section 5 of this Agreement.

(b) A cancellation of this Agreement pursuant to subparagraph 6.1(a)(i) shall not terminate the obligations of either party with respect to all transactions which are or have been:

(i) Funded;

(ii) Closed; or

(iii) Committed (i.e. any transaction which has been approved by the Credit Committee of PCC).

6.2. DISPOSITION OF MARKETING FEES AND RESERVE ACCOUNT UPON EARLY CANCELLATION/TERMINATION OF AGREEMENT. Notwithstanding any provision herein to the contrary or in conflict, USFS and PCC agree that in the event this Agreement is canceled by USFS pursuant to subparagraph 6.1(a)(i) within six (6) months following the Effective Date and prior to the Public Offering by PCC, or by PCC pursuant to Subsection 5(b)(iv) as a result of the occurrence of an Event of Default, all monies due or coming due to USFS hereunder as Marketing Fees or otherwise, and funds in the Reserve Account (including funds on deposit in the SRA) and any interest therein, shall be retained by PCC as partial liquidating damages, free and clear of any obligations or restrictions under this Agreement, and USFS hereby waives and releases any rights or claims to or interest in any such funds or the Reserve Account in the event of any such cancellation or termination of this Agreement.

SECTION 7. PUBLIC STOCK OFFERING; USFS FINANCIAL INFORMATION:

7.1. PUBLIC OFFERING.

(a) USFS acknowledges that PCC may, at its option and on a best efforts basis, initiate a public offering of PCC shares (the "Public Offering") in conjunction with this Agreement. The terms, provisions, conditions and scheduling of the Public Offering shall be under the exclusive control and within the absolute discretion of PCC, as shall be the decision on whether or not to proceed with a Public Offering. The costs and expenses connected with such Public Offering shall be the responsibility of PCC.

(b) USFS hereby agrees to assist PCC in connection with any such Public Offering as reasonably requested by the underwriter selected by PCC for the Public Offering. Any cost or expense of assisting with the Public Offering which is incurred by USFS at the request of PCC or its underwriter will be reimbursed by PCC; provided, however, that USFS and PCC will agree on the amount and/or type of costs and expenses to be reimbursed prior to USFS's incurring the same.

7.2. USFS FINANCIAL INFORMATION.

(a) USFS shall provide PCC annually, within ninety (90) days following the end of each fiscal year of USFS, with the

consolidated balance sheet of USFS as at the end of such fiscal year and the related consolidated statements of income, shareholders' equity and cash flow of USFS for such fiscal year, prepared in accordance with generally accepted accounting principals, and audited by the independent certified public accountants employed by USFS (the "Financial Information").

(b) Within thirty (30) days after preparation thereof, USFS shall provide PCC a copy of each Uniform Franchise Offering Circular ("UFOC's") pertaining to Microtel.

(c) PCC will use its best efforts to maintain, in confidence, Financial Information provided by USFS to PCC and marked as "Confidential." Such Financial Information will be revealed only to such of PCC's agents and employees as may reasonably be required to evaluate the ongoing business of USFS. Such agents and employees will be advised of the restrictions on further disclosure. USFS acknowledges that PCC may be required by law or order of a court to disclose or provide such confidential Financial Information to third-persons. In the event that PCC is served with any subpoena, request for production or order of a court or administrative tribunal pertaining to such confidential Financial Information, it will notify USFS, and USFS may, at USFS's cost and expense, object to or defend against any such subpoena, discovery request or order.

SECTION 8. PCC ACTION WITH RESPECT TO PCC LOANS:

8.1. MODIFICATION OF LOANS, ETC. If PCC shall at any time or from time to time, with or without the consent of, or notice to, USFS:

(a) change or extend the manner, place or terms of payment of, or renew or alter all or any portion of, a PCC Loan or Loan Documents;

(b) take any action under or in respect of a PCC Loan or Loan Documents in the exercise of any remedy, power or privilege contained therein or available to it at law, equity or otherwise, or waive or refrain from exercising any such remedies, powers or privileges;

(c) amend or modify, in any manner whatsoever, a PCC Loan or Loan Documents;

(d) extend or waive the time for any Borrowers' or other person's (including, without limitation, any guarantor) performance of, or compliance with, any term, covenant or agreement on its part to be performed or observed with respect to a PCC Loan or under

Loan Documents, or waive such performance or compliance or consent to a failure of, or departure from, such performance or compliance;

(e) take and hold security or collateral for the payment of a PCC Loan or sell, exchange, release, dispose of, or otherwise deal with, any property pledged, mortgaged or conveyed, or in which PCC, as Lender, has been granted a Lien, to secure any indebtedness of any of the Borrowers, or any other person (including, without limitation, any guarantor) of a PCC Loan;

(f) release anyone who may be liable in any manner for the payment of any amounts owed by any of the Borrowers, or any other person (including, without limitation, any guarantor) of a PCC Loan;

(g) modify or terminate the terms of any intercreditor or subordination agreement pursuant to which claims of other creditors of any of the Borrowers, or any other person (including, without limitation, any guarantor) of a PCC Loan are subordinated to the claims of PCC; or

(h) apply any sums by whomever paid or however realized to any amounts owing by any of the Borrowers or any other person (including, without limitation, any guarantor) of a PCC Loan in such manner as PCC shall determine in its discretion;

then PCC shall not incur any liability to USFS as a result thereof, and no such action shall impair or release any of the obligations of USFS under this Agreement.

8.2. SURVIVAL OF AGREEMENT. USFS agrees that this Agreement shall remain in full force and effect, and its obligations hereunder shall continue with respect to each PCC Loan made subject to this Agreement, irrespective of, and unaffected by:

(a) the genuiness, validity, regularity, enforceability or any future amendment of, or change in, any such PCC Loan or any other Loan Document related thereto or any other agreement, document or instrument to which any of the Borrowers or any guarantor of the said PCC Loan is or may become a party;

(b) the absence of any action to enforce the PCC Loan or any other Loan Document or the waiver or consent by PCC with respect to any of the provisions of any Loan Document;

(c) the existence, value or condition of, or failure to perfect a lien against, any security for the PCC Loan or any action, or the absence of any action, by PCC in respect of such security;

(d) any change in the time, manner or place of payment of, or in any other term of, all or any part of the PCC Loan, or any other amendment or waiver of or any consent to departure from any agreement, note or other instrument related to such PCC Loan or Loan Documents;

(e) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the PCC Loans; or

(f) any other action or circumstance which might otherwise constitute a legal or equitable discharge or defense of any Borrower or a surety or guarantor;

it being agreed by USFS that its obligations under this Agreement shall not be discharged until the payment and performance, in full, of each said PCC Loan. USFS expressly waives any rights it may now or in the future have under this Agreement, any statute, or at common law, or at law or in equity, or otherwise, to compel PCC to proceed with respect to a PCC Loan against any of the Borrowers or any other party to such PCC Loan or the Loan Documents, or against any security for the payment and performance of the PCC Loan before proceeding against, or as a condition to proceeding under this Agreement. USFS further expressly waives and agrees not to assert or take advantage of any defense based upon the failure of PCC to commence an action in respect of any PCC Loan against any of the Borrowers, or any other person (including, without limitation, any guarantor) or any security for the payment and performance of a PCC Loan. USFS agrees that any notice or directive given at any time to PCC which is inconsistent with the waivers in the preceding two sentences shall be null and void and may be ignored by PCC, and, in addition, may not be pleaded or introduced as evidence in any litigation relating to this Agreement for the reason that such pleading or introduction would be at variance with the written terms of this Agreement, unless PCC has specifically agreed otherwise in writing. The foregoing waivers are of the essence of the transaction contemplated by this Agreement and, but for this Agreement and such waivers, PCC would decline to make PCC Loans to Franchisees.

8.3. WAIVERS WITH RESPECT TO PCC LOANS. In addition to the waivers contained elsewhere in this Agreement, USFS waives, and agrees that it shall not at any time insist upon, plead or in any manner whatever claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, marshalling of assets or redemption laws, or exemption, whether now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance by USFS of its obligations under, or the enforcement by PCC of, this Agreement. USFS further hereby waives diligence,

presentment and demand (whether for non-payment or protest or of acceptance, maturity, extension of time, change in nature or form respecting PCC Loans, acceptance of further security, release of further security, composition or agreement arrived at as to the amount of, or the terms of, PCC Loans, notice of adverse change in any of the Borrowers' or any other person's (including, without limitation, any guarantor) financial condition or any other fact which might materially increase the risk with respect to a PCC Loan) with respect to any of the PCC Loans or all other demands whatsoever and waives the benefit of all provisions of law which are or might be in conflict with the terms of this Agreement.

SECTION 9. MISCELLANEOUS:

9.1. NOTICES.

(a) Unless otherwise provided herein, communications provided for hereunder shall be in writing and shall be mailed, telecopied or delivered, as follows:

If to USFS: U.S. FRANCHISE SYSTEMS, INC.
13 Corporate Square, Suite 250
Atlanta, Georgia 30329
Attn: Neal Aronson
Telecopier No. (404) 321-4482

or, an affiliate of USFS designated by USFS by notice in writing to PCC, at the address shown in such notice.

If to PCC: PMC COMMERCIAL TRUST
17290 Preston Road, 3rd Floor
Dallas, Texas 75252
Attn: Jan S. Salit
Telecopier No. (214) 380-1371

or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and other communications to a party shall be effective (i) if mailed, when received or three days after mailing, whichever is earlier; (ii) if telecopied, when transmitted; or (iii) if hand delivered, when delivered. All notices given by telephone shall be subsequently confirmed in writing, such written confirmation to be controlling over any information in the telephonic notice. Personal delivery or delivery by transmittal of a confirmed telecopy sent to the telecopier number following a party's address herein, to a party or to any officer, partner, agent, or employee of such party at said address or telecopier number shall constitute receipt. Rejection or other refusal to accept or inability to deliver because of a changed address of which no notice has been

received shall also constitute receipt.

9.2. EXPENSES. USFS and PCC hereby agree to share equally the legal cost of the preparation of this Agreement.

9.3. AMENDMENTS. Any term, covenant, agreement or condition of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by PCC and, in the case of an amendment, by each USFS and PCC.

9.4. GENERAL INDEMNIFICATION.

(a) USFS agrees to indemnify and hold PCC, its directors, officers, shareholders, employees, agents and affiliates harmless from and against any claim, loss, damage, action, cause of action, liability, cost and expense (including, without limitation, reasonable attorney's fees and expenses) or suit of any kind or nature whatsoever (collectively "Losses") brought against or incurred by PCC, including without limitation, claims brought against PCC by any third party, in any manner arising out of or, directly or indirectly, related to or connected with USFS' business activities related to this agreement.

(b) PCC agrees to indemnify and hold USFS, its directors, officers, shareholders, employees, agents and affiliates harmless from and against any Losses brought against or incurred by any of the foregoing persons, in any manner arising out of or, directly or indirectly, related to or connected with PCC's business activities related to this agreement or the Public Offering.

9.5. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

9.6. INTEGRATION. THIS AGREEMENT SETS FORTH AND CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO WITH RESPECT TO THE TRANSACTIONS SET FORTH HEREIN.

9.7. SETOFF. In addition to any rights now or hereafter granted under Applicable law and not by way of limitation of any such rights, PCC is hereby authorized by USFS, at any time or from time to time after the occurrence of an Event of Default, without notice or demand, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, and including, but not limited to, Marketing Fees or other deposit, whether matured or unmatured) and any other indebtedness at any time held or owing by the PCC to or for the credit or the account of USFS against and on account of any monetary obligation of USFS to PCC under this Agreement or any damages suffered by PCC as a result of the failure of USFS to keep

and perform all terms, provisions and conditions of this Agreement, irrespective of whether or not any or all of such monetary obligations and damages shall have been declared to be due and payable.

9.8. ASSIGNMENT. All the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that USFS may not assign or transfer any of its rights under this Agreement without PCC's prior written consent.

9.9. TITLES AND CAPTIONS. Titles and captions of Sections, Subsections and paragraphs in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

9.10. SEVERABILITY OF PROVISIONS. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

9.11. COUNTERPARTS. This Agreement may be executed in any number of counterparts each of which shall be deemed to be an original but all of which together, when taken together, shall constitute one and the same instrument.

9.12. PARTICIPATIONS.

(a) PCC may at any time sell, assign, transfer, negotiate, and grant participations in, or otherwise dispose of, all or any portion of its rights, benefits and/or obligations under this Agreement and under any PCC Loan and related Loan Documents to any Person and in the event of any such disposition by PCC, all references herein to PCC shall be deemed a reference to PCC's transferee or participant to the extent of its participation. USFS hereby agrees that any transferee or participant receiving or purchasing a participation in a PCC Loan and related Loan Documents or rights under this Agreement shall be entitled to the rights and benefits of this Agreement to the extent of any such participation or assignment, as if such transferee or participant were PCC, provided, however, that all such rights and benefits shall be exercisable only by and through PCC.

(b) Notwithstanding any provision or condition herein to the contrary or in conflict, USFS hereby acknowledges and agrees that PCC may negotiate, sell, assign or transfer all or any part of

a PCC Loan and related Loan Documents free and clear of any claims by USFS under this Agreement, provided that all obligations of USFS under this Agreement with respect to such PCC Loan and related Loan Documents shall automatically terminate upon any such negotiation, sale, assignment of transfer.

9.13. EFFECTIVE DATE. The "Effective Date" of this Agreement shall be the __ day of April, 1996.

IN WITNESS WHEREOF, the undersigned have caused their respective signatures to be affixed hereto by their officers thereunto duly authorized on this ___ day of April, 1996.

USFS:

U.S. FRANCHISE SYSTEMS, INC.

BY:

TITLE:

[CORPORATE SEAL]

PCC:

PMC COMMERCIAL TRUST

BY:

TITLE:

EXHIBIT "A"

ELIGIBLE INVESTMENTS

List:

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-2757) of our report dated March 20, 1996, on our audits of the financial statements of PMC Commercial Trust. We also consent to the reference to our firm under the caption "Experts."

COOPERS & LYBRAND L.L.P.

Dallas, Texas
June 7, 1996

EXHIBIT 24

The undersigned trust managers of PMC Commercial Trust hereby constitute and appoint Lance B. Rosemore and Dr. Andrew S. Rosemore and each of them, with full power to act without the other and with full power of substitution and resubstitution, our true and lawful attorneys-in-fact with full power to execute in our name and on behalf in the capacities indicated below any and all amendments (including post-effective amendments and amendments thereto) to the Registration Statement and to file the same, with all exhibits thereto and other documents in connection therewith the Securities and Exchange Commission and hereby notify and confirm all that such attorneys-in fact, or either of them or substitutes shall lawfully do or cause to be done by virtue hereof.

NAME	TITLE	DATE
/s/ DR. MARTHA R. GREENBERG Dr. Martha R. Greenberg	Trust Manager	June 7, 1996
/s/ DR. IRA SILVER Dr. Ira Silver	Trust Manager	June 7, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MARCH 31, 1996 FORM 10Q OF PMC COMMERCIAL TRUST AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS	
DEC-31-1996	
JAN-01-1996	
MAR-31-1996	
	173,946
	16,830,812
	63,341,691
	0
	0
	0
	0
	0
	83,165,479
	4,664,510
	29,500,000
	49,144,887
	0
	0
	(143,918)
	83,165,479
	0
	1,906,786
	0
	0
	310,547
	0
	251,769
	1,344,470
	0
	1,344,470
	0
	0
	0
	1,344,470
	0.38
	0.38

Includes current and long-term portion of all loans receivable and related interest receivable

Includes the following items not included above:

(i)	Other assets, net	$ 50,000
(ii)	Deferred borrowing costs	357,754
(iii)	Restricted investments	2,411,276
		$2,819,030

Includes the following:

(i)	Dividends payable	$1,310,166
(ii)	Accounts payable	5,859
(iii)	Interest payable	227,921
(iv)	Borrower advances	1,106,265
(v)	Unearned Commitment fees	816,611
(vi)	Due to affiliates	1,043,627
(vii)	Unearned construction monitoring fees	154,061
		$4,664,510