

Resource Capital Corp.
Form 10-Q
August 07, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 1-32733

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

Maryland
(State or other jurisdiction of
incorporation or organization)

20-2287134
(I.R.S. Employer
Identification No.)

712 5th Avenue, 12th Floor, New York, New York 10019
(Address of principal executive offices) (Zip code)
(212) 506-3870
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
 Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|---|---------------------------|--------------------------|
| Large accelerated filer | | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

The number of outstanding shares of the registrant’s common stock on August 3, 2012 was 88,183,777 shares.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 31,897 | \$ 43,116 |
| Restricted cash | 78,343 | 142,806 |
| Investment securities, trading | 44,153 | 38,673 |
| Investment securities available-for-sale, pledged as collateral, at fair value | 177,332 | 153,366 |
| Investment securities available-for-sale, at fair value | 7,800 | 4,678 |
| Loans held for sale | 49,114 | 3,154 |
| Property available-for-sale | – | 2,980 |
| Investment in real estate | 47,362 | 48,027 |
| Loans, pledged as collateral and net of allowances of \$12.4 million and \$27.5 million | 1,736,079 | 1,772,063 |
| Loans receivable—related party | 9,438 | 9,497 |
| Investments in unconsolidated entities | 45,289 | 47,899 |
| Interest receivable | 9,597 | 8,836 |
| Deferred tax asset | 626 | 626 |
| Intangible assets | 17,877 | 19,813 |
| Prepaid expenses | 6,485 | 648 |
| Other assets | 5,514 | 3,445 |
| Total assets | \$ 2,266,906 | \$ 2,299,627 |
| LIABILITIES | | |
| Borrowings | \$ 1,739,805 | \$ 1,808,986 |
| Distribution payable | 17,279 | 19,979 |
| Accrued interest expense | 3,294 | 3,260 |
| Derivatives, at fair value | 13,570 | 13,210 |
| Accrued tax liability | 4,593 | 12,567 |
| Deferred tax liability | 3,906 | 5,624 |
| Accounts payable and other liabilities | 8,756 | 6,311 |
| Total liabilities | 1,791,203 | 1,869,937 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, par value \$0.001: 100,000,000 shares authorized 8.50% Series A cumulative redeemable preferred shares, liquidation preference \$25.00 per share, 268,720 shares issued and outstanding | – | – |
| Common stock, par value \$0.001: 500,000,000 shares authorized; 86,266,500 and 79,877,516 shares issued and outstanding (including 1,638,906 and 1,428,931 unvested restricted shares) | 86 | 80 |
| Additional paid-in capital | 699,971 | 659,700 |

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| | | |
|---|---------------------|---------------------|
| Accumulated other comprehensive loss | (37,245) | (46,327) |
| Distributions in excess of earnings | (187,109) | (183,763) |
| Total stockholders' equity | 475,703 | 429,690 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,266,906 | \$ 2,299,627 |

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| REVENUES | | | | |
| Interest income: | | | | |
| Loans | \$23,012 | \$20,591 | \$46,627 | \$41,841 |
| Securities | 3,752 | 2,955 | 7,336 | 5,715 |
| Interest income – other | 3,157 | 1,716 | 5,986 | 2,935 |
| Total interest income | 29,921 | 25,262 | 59,949 | 50,491 |
| Interest expense | 8,936 | 7,062 | 17,379 | 13,995 |
| Net interest income | 20,985 | 18,200 | 42,570 | 36,496 |
| Rental income | 2,034 | 157 | 3,953 | 180 |
| Dividend income | – | 866 | – | 1,527 |
| Fee income | 2,329 | 2,253 | 4,191 | 3,899 |
| Total revenues | 25,348 | 21,476 | 50,714 | 42,102 |
| OPERATING EXPENSES | | | | |
| Management fees – related party | 4,548 | 3,148 | 7,991 | 5,486 |
| Equity compensation – related party | 1,140 | 623 | 2,008 | 1,083 |
| Professional services | 806 | 989 | 2,158 | 1,908 |
| Insurance | 159 | 159 | 317 | 336 |
| Rental operating expense | 1,309 | 185 | 2,629 | 330 |
| General and administrative | 1,470 | 1,121 | 2,533 | 1,921 |
| Depreciation and amortization | 1,364 | 756 | 2,725 | 1,009 |
| Income tax expense | 384 | 1,171 | 2,999 | 2,980 |
| Total operating expenses | 11,180 | 8,152 | 23,360 | 15,053 |
| | 14,168 | 13,324 | 27,354 | 27,049 |
| OTHER REVENUE (EXPENSE) | | | | |
| Net impairment losses recognized in earnings | (32) | (4,649) | (171) | (4,649) |
| Net realized gain on investment securities available-for-sale and loans | 1,422 | 3,696 | 1,802 | 3,852 |
| Net realized and unrealized gain on investment securities, trading | 1,424 | 1,473 | 3,568 | 3,279 |
| Provision for loan losses | (4,253) | (4,113) | (6,431) | (6,719) |
| Gain on the extinguishment of debt | 5,464 | – | 5,464 | – |
| Other expenses | (1,743) | (512) | (655) | (451) |
| Total other revenue (expense) | 2,282 | (4,105) | 3,577 | (4,688) |
| NET INCOME | 16,450 | 9,219 | 30,931 | 22,361 |
| Net income allocated to preferred shares | (25) | – | (25) | – |
| NET INCOME ALLOCABLE TO COMMON SHARES | | | | |
| NET INCOME PER SHARE – BASIC | \$0.20 | \$0.13 | \$0.38 | \$0.34 |
| NET INCOME PER SHARE – DILUTED | \$0.20 | \$0.13 | \$0.37 | \$0.34 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC | | | | |
| | 83,466,810 | 70,704,579 | 82,334,303 | 65,455,811 |

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| | | | | |
|--|------------|------------|------------|------------|
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED | 84,188,216 | 71,008,075 | 83,040,604 | 65,732,464 |
| DIVIDENDS DECLARED PER SHARE | \$0.20 | \$0.25 | \$0.40 | \$0.50 |

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$16,450 | \$9,219 | \$30,931 | \$22,361 |
| Other comprehensive income: | | | | |
| Reclassification adjustment for gains included in net income | 922 | - | 934 | - |
| Unrealized (losses) gains on available-for-sale securities, net | (2,203) | (4,956) | 8,396 | (82) |
| Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income | 55 | 56 | 112 | 111 |
| Unrealized losses on derivatives, net | (266) | (4,525) | (360) | (3,242) |
| Total other comprehensive (loss) income | (1,492) | (9,425) | 9,082 | (3,213) |
| Comprehensive income (loss) | \$14,958 | \$(206) | \$40,013 | \$19,148 |

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2012
(in thousands, except share and per share data)
(Unaudited)

| | Common Stock | | Preferred Stock- Series A | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Distributions in Excess of Earnings | Total Stockholders' Equity |
|--|--------------|--------|------------------------------------|----------------------------------|---|----------------------|---|----------------------------------|
| | Shares | Amount | | | | | | |
| Balance, January 1, 2012 | 79,877,516 | \$80 | \$- | \$ 659,700 | \$ (46,327) | \$- | \$ (183,763) | \$ 429,690 |
| Proceeds from dividend reinvestment and stock purchase plan | 5,877,094 | 5 | - | 32,296 | - | - | - | 32,301 |
| Proceeds from issuance of preferred stock | - | - | - | 6,318 | - | - | - | 6,318 |
| Offering costs | - | - | - | (505) | - | - | - | (505) |
| Stock based compensation | 516,253 | 1 | - | 154 | - | - | - | 155 |
| Amortization of stock based compensation | - | - | - | 2,008 | - | - | - | 2,008 |
| Forfeitures | (4,363) | - | - | - | - | - | - | - |
| Net income | - | - | - | - | - | 30,931 | - | 30,931 |
| Preferred dividends | - | - | - | - | - | (25) | - | (25) |
| Securities available-for-sale, fair value adjustment, net | - | - | - | - | 9,330 | - | - | 9,330 |
| Designated derivatives, fair value adjustment | - | - | - | - | (248) | - | - | (248) |
| Distributions on common stock | - | - | - | - | - | (30,906) | (3,346) | (34,252) |
| Balance, June 30, 2012 | 86,266,500 | \$86 | \$- | \$ 699,971 | \$ (37,245) | \$- | \$ (187,109) | \$ 475,703 |

The accompanying notes are an integral part of this statement

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

| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$30,931 | \$22,361 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 6,431 | 6,719 |
| Depreciation of investments in real estate | 789 | 28 |
| Amortization of intangible assets | 1,936 | 980 |
| Amortization of term facilities | 455 | 265 |
| Accretion of net discounts on loans held for investment | (8,013) | (9,720) |
| Accretion of net discounts on securities available-for-sale | (1,559) | (1,739) |
| Accretion of net discounts on securities held-to-maturity | - | (237) |
| Amortization of discount on notes of CDOs | 689 | 27 |
| Amortization of debt issuance costs on notes of CDOs | 2,356 | 1,521 |
| Amortization of stock-based compensation | 2,008 | 1,083 |
| Amortization of terminated derivative instruments | 113 | 111 |
| Distribution to subordinated debt holder | 1,167 | - |
| Non-cash incentive compensation to the Manager | 613 | 201 |
| Deferred income tax benefits | (1,718) | - |
| Purchase of securities, trading | (8,348) | (28,340) |
| Principal payments on securities, trading | 898 | 123 |
| Proceeds from sales of securities, trading | 5,531 | 16,868 |
| Net realized and unrealized gain on investment securities, trading | (3,568) | (3,279) |
| Net realized gains on investments | (1,802) | (3,852) |
| Gain on early extinguishment of debt | (1,835) | - |
| Net impairment losses recognized in earnings | 171 | 4,649 |
| Changes in operating assets and liabilities | (14,101) | 14,635 |
| Net cash provided by operating activities | 13,144 | 22,404 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Decrease (increase) in restricted cash | 64,085 | (20,023) |
| Purchase of securities available-for-sale | (39,184) | (59,348) |
| Principal payments on securities available-for-sale | 17,954 | 3,483 |
| Proceeds from sale of securities available-for-sale | 6,719 | 13,747 |
| Investment in unconsolidated entity | 1,470 | 354 |
| Improvement of real estate held-for-sale | (138) | - |
| Proceeds from sale of real estate held-for-sale | 2,886 | - |
| Purchase of loans | (340,523) | (387,247) |
| Principal payments received on loans | 240,407 | 277,672 |
| Proceeds from sale of loans | 93,236 | 95,370 |
| Distributions from investments in real estate | 851 | - |
| Improvements in investments in real estate | (504) | - |
| Purchase of intangible asset | (1,517) | (21,213) |

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| | | |
|--|--------|-----------|
| Principal payments received on loans – related parties | 137 | 264 |
| Net cash provided by (used in) investing activities | 45,879 | (96,941) |

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

| | Six Months Ended June 31, | |
|---|------------------------------|-----------------|
| | 2012 | 2011 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuances of common stock (net of offering costs of \$0 and \$1,228) | – | 46,382 |
| Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of \$19 and \$0) | 32,282 | 54,564 |
| Proceeds from issuance of 8.5% Series A redeemable preferred shares (net of offering costs of \$486 and \$0) | 5,832 | – |
| Proceeds from borrowings: | | |
| Repurchase agreements | 44,295 | 23,687 |
| Payments on borrowings: | | |
| Collateralized debt obligations | (108,881) | – |
| Retirement of debt | (4,850) | – |
| Payment of debt issuance costs | (586) | (541) |
| Payment of equity to third party sub-note holders | (1,219) | – |
| Proceeds from CDO retained notes | (215) | – |
| Distributions paid on common stock | (36,900) | (32,145) |
| Net cash (used in) provided by financing activities | (70,242) | 91,947 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (11,219) | 17,410 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 43,116 | 29,488 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$31,897 | \$46,898 |
| SUPPLEMENTAL DISCLOSURE: | | |
| Interest expense paid in cash | \$8,253 | \$16,727 |

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Resource Capital Corp. and subsidiaries' (collectively the "Company") principal business activity is to purchase and manage a diversified portfolio of commercial real estate-related assets and commercial finance assets. The Company's investment activities are managed by Resource Capital Manager, Inc. ("Manager") pursuant to a management agreement (the "Management Agreement"). The Manager is a wholly-owned indirect subsidiary of Resource America, Inc. ("Resource America") (NASDAQ: REXI). The following subsidiaries are consolidated in the Company's financial statements:

RCC Real Estate, Inc. ("RCC Real Estate") holds real estate investments, including commercial real estate loans, commercial real estate-related securities and investments in real estate. RCC Real Estate owns 100% of the equity of the following variable interest entities ("VIEs"):

Resource Real Estate Funding CDO 2006-1 ("RREF CDO 2006-1"), a Cayman Islands limited liability company and qualified real estate investment trust ("REIT") subsidiary ("QRS"). RREF CDO 2006-1 was established to complete a collateralized debt obligation ("CDO") issuance secured by a portfolio of commercial real estate loans and commercial mortgage-backed securities ("CMBS").

Resource Real Estate Funding CDO 2007-1 ("RREF CDO 2007-1"), a Cayman Islands limited liability company and QRS. RREF CDO 2007-1 was established to complete a CDO issuance secured by a portfolio of commercial real estate loans, CMBS and property available-for-sale.

RCC Commercial, Inc. ("RCC Commercial") holds bank loan investments. RCC Commercial owns 90% and 100%, respectively of the equity of the following VIEs:

Apidos CDO I, Ltd. ("Apidos CDO I"), a Cayman Islands limited liability company and taxable REIT subsidiary ("TRS"). Apidos CDO I was established to complete a CDO issuance secured by a portfolio of bank loans and asset-backed securities ("ABS").

Apidos CDO III, Ltd. ("Apidos CDO III"), a Cayman Islands limited liability company and TRS. Apidos CDO III was established to complete a CDO issuance secured by a portfolio of bank loans and ABS.

RCC Commercial II, Inc. ("Commercial II") holds bank loan investments and commercial real estate-related securities. Commercial II owns 100% of the equity of the following VIE:

Apidos Cinco CDO, Ltd. ("Apidos Cinco CDO"), a Cayman Islands limited liability company and TRS. Apidos Cinco CDO was established to complete a CDO issuance secured by a portfolio of bank loans and ABS.

Resource TRS, Inc. ("Resource TRS"), a TRS directly owned by the Company, holds the Company's equity investment in a leasing company and holds all of its investment securities, trading.

Resource TRS II, Inc. ("Resource TRS II"), a TRS directly owned by the Company, holds the Company's interests in bank loan CDOs not originated by the Company. Resource TRS II owns 100% of the equity of the following VIE:

Resource Capital Asset Management (“RCAM”), a domestic limited liability company, is entitled to collect senior, subordinated, and incentive fees related to five CDO issuers to which it provides management services through CVC Credit Partners, LLC, formerly Apidos Capital Management, a subsidiary of CVC Capital Partners SICAV-FIS, S.A., a private equity firm (“CVC”). Resource America, Inc. owns a 33% interest in CVC Credit Partners, LLC.

Resource TRS III, Inc. (“Resource TRS III”), a TRS directly owned by the Company, holds the Company’s interests in a bank loan CDO originated by the Company. Resource TRS III owns 33% of the equity of the following VIE:

Apidos CLO VIII, Ltd (“Apidos CLO VIII”), a Cayman Islands limited liability company and TRS. Apidos CLO VIII was established to complete a CLO issuance secured by a portfolio of bank loans.

RSO EquityCo, LLC owns 10% of the equity of Apidos CDO I and 10% of the equity of Apidos CLO VIII.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2012
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION – (Continued)

The consolidated financial statements and the information and tables contained in the notes to the consolidated financial statements are unaudited. However, in the opinion of management, these interim financial statements include all adjustments necessary to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. The results of operations for the six months ended June 30, 2012 may not necessarily be indicative of the results of operations for the full year ending December 31, 2012.

The Company has determined that it is the primary beneficiary of Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII, RREF CDO 2006-1 and RREF CDO 2007-1 based, among other things, on the guidance of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “Consolidation.” where it was determined that the Company was most closely associated with each VIE including the existence of a principal-agency relationship where the Company is the principal. In its capacity as manager, the Company has supported two credits in one of its commercial real estate (“CRE”) CDOs as it went through a restructure in order to maximize the future cash flows. The Company has provided no other financial support to any other of its VIEs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of the Company.

All inter-company transactions and balances have been eliminated.

Investment Securities

The Company classifies its investment portfolio as trading or available-for-sale. The Company, from time to time, may sell any of its investments due to changes in market conditions or in accordance with its investment strategy.

The Company’s investment securities, trading are reported at fair value (see Note 17). To determine fair value, the Company uses dealer quotes or bids which are validated using an income approach utilizing appropriate prepayment, default, and recovery rates. Any changes in fair value are recorded in the Company’s results of operations as net realized and unrealized gain (loss) on investment securities, trading.

The Company’s investment securities available-for-sale are reported at fair value (see Note 17). To determine fair value, the Company uses a dealer quote, which typically will be the dealer who sold the Company the security. The Company has been advised that, in formulating their quotes, dealers may use recent trades in the particular security, if any, market activity in similar securities, if any, or internal valuation models. These quotes are non-binding. Based on how dealers develop their quotes, market liquidity and levels of trading, the Company categorizes these

investments as either Level 2 or Level 3 in the fair value hierarchy. The Company evaluates the reasonableness of the quotes it receives by applying its own valuation models. If there is a material difference between a quote the Company receives and the value indicated by its valuation models, the Company will evaluate the difference. As part of that evaluation, the Company will discuss the difference with the dealer, who may revise its quote based upon these discussions. Alternatively, the Company may revise its valuation models.

On a quarterly basis, the Company evaluates its available-for-sale investments for other-than-temporary impairment. An available-for-sale investment is impaired when its fair value has declined below its amortized cost basis. An impairment is considered other-than-temporary when the amortized cost basis of the investment or some portion thereof will not be recovered. In addition, the Company's intent to sell as well as the likelihood that the Company will be required to sell the security before the recovery of the amortized cost basis is considered. Where credit quality is believed to be the cause of the other-than-temporary impairment, that component of the impairment is recognized as an impairment loss in the statement of operations. Where other market components are believed to be the cause of the impairment, that component of the impairment is recognized as other comprehensive loss.

Investment security transactions are recorded on the trade date. Realized gains and losses on investment securities are determined on the specific identification method.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2012
(Unaudited)

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

Investment Interest Income Recognition

Interest income on the Company's mortgage-backed and other asset-backed securities is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the lives of the securities also using the effective yield method, adjusted for the effects of estimated prepayments. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed as of each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. If prepayment estimates are incorrect, the amortization or accretion of premiums and discounts may have to be adjusted, which would have an impact on future income.

Allowance for Loan Loss

The Company maintains an allowance for loan loss. Loans held for investment are first individually evaluated for impairment so specific reserves can be applied. Loans for which a specific reserve is not applicable are then evaluated for impairment as a homogeneous pool of loans with substantially similar characteristics so that a general reserve can be established, if needed. The reviews are performed at least quarterly.

The Company considers a loan to be impaired if one of two conditions exists. The first condition is if, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The second condition is if the loan is deemed to be a troubled-debt restructuring ("TDR") where a concession has been given to a borrower in financial difficulty. These TDRs may not have an associated specific loan loss allowance if the principal and interest amount is considered recoverable based on current market conditions, expected collateral performance and / or guarantees made by the borrowers.

When a loan is impaired under either of these two conditions, the allowance for loan losses is increased by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; on market price, if available; or on the fair value of the collateral less estimated disposition costs. When a loan, or a portion thereof, is considered uncollectible and pursuit of collection is not warranted, the Company will record a charge-off or write-down of the loan against the allowance for loan losses.

An impaired loan may remain on accrual status during the period in which the Company is pursuing repayment of the loan; however, the loan would be placed on non-accrual status at such time as (i) management believes that scheduled debt service payments will not be met within the coming 12 months; (ii) the loan becomes 90 days delinquent; (iii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the

impairment; or (iv) the net realizable value of the loan's underlying collateral approximates the Company's carrying value for such loan. While on non-accrual status, the Company recognizes interest income only when an actual payment is received.

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

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

Investments in Real Estate

Investments in real estate are carried net of accumulated depreciation. Costs directly related to the acquisition are expensed as incurred. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Costs related to the improvement of the real property are capitalized and depreciated over their useful life.

Acquisitions of real estate assets and any related intangible assets are recorded initially at fair value under FASB ASC Topic 805, “Business Combinations.” The Company allocates the purchase price of its investments in real estate to land, building, site improvements, the value of in-place leases and the value of above or below market leases. The value allocated to above or below market leases is amortized over the remaining lease term as an adjustment to rental income. The Company amortizes the value allocated to in-place leases over the weighted average remaining lease term to depreciation and amortization expense. The Company depreciates real property using the straight-line method over the estimated useful lives of the assets as follows:

| Category | Term |
|-------------------|---|
| Building | 25 – 40 years |
| Site improvements | Lesser of the remaining life of building or useful life |

Long-Lived and Intangible Assets

Long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the long-lived asset’s use and eventual disposition. If impairment has occurred, the loss will be measured as the excess of the carrying amount of the asset over the fair value of the asset.

No impairment charges were recorded on the Company’s investment in real estate or intangible assets during the three or six months ended June 30, 2012 and 2011.

Recent Accounting Standards

In June 2011, the FASB issued guidance which changes the presentation of comprehensive income. It eliminates the option to present comprehensive income as part of the changes in stockholders’ equity. In addition, it requires consecutive disclosure of comprehensive income either as part of the statement of net income or in a statement immediately following. Finally, the guidance requires disclosure on the face of the financial statements of any reclassifications between net income and other comprehensive income. The guidance is effective for fiscal years and periods within those years beginning after December 15, 2011. In December 2011, the FASB updated the guidance to defer the requirement related to the presentation of certain reclassification adjustments. Adoption required an additional statement to disclose the Company’s comprehensive income, which is included with these financial statements.

In April 2011, the FASB issued guidance which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. The amendments in this guidance will be effective for interim and annual reporting periods beginning on or after December 15, 2011, and will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Adoption had no impact on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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NOTE 3 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information (in thousands):

| | Six Months Ended June 30, | |
|--|------------------------------|-------------|
| | 2012 | 2011 |
| Non-cash investing activities include the following: | | |
| Contribution of lease receivables and other assets | \$– | \$117,340 |
| Conversion of equity in LEAF Receivables Funding 3 to preferred stock and warrants | \$– | \$(21,000) |
| Acquisition of real estate investments | \$– | \$(33,073) |
| Conversion of loans to investment in real estate | \$– | \$34,550 |
| Non-cash financing activities include the following: | | |
| Distributions on common stock declared but not paid | \$17,254 | \$18,567 |
| Distribution on preferred stock declared but not paid | \$25 | \$– |
| Issuance of restricted stock | \$482 | \$966 |
| Contribution of equipment-backed securitized notes and other liability | \$– | \$(96,840) |

NOTE 4 – INVESTMENT SECURITIES, TRADING

The following table summarizes the Company's structured notes and residential mortgage-backed securities ("RMBS") which are classified as investment securities, trading and carried at fair value (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|--------------------|-------------------|---------------------|----------------------|---------------|
| June 30, 2012: | | | | |
| Structured notes | \$26,872 | \$10,895 | \$(1,131) | \$36,636 |
| RMBS | 10,547 | 452 | (3,482) | 7,517 |
| Total | \$37,419 | \$11,347 | \$(4,613) | \$44,153 |
| December 31, 2011: | | | | |
| Structured notes | \$27,345 | \$6,098 | \$(1,890) | \$31,553 |
| RMBS | 8,729 | 100 | (1,709) | 7,120 |
| Total | \$36,074 | \$6,198 | \$(3,599) | \$38,673 |

The Company purchased and sold two securities during the six months ended June 30, 2012, for a net loss of \$791,000. The Company also had one position liquidate during the six months ended June 30, 2012 which resulted in a gain of \$224,000. The Company held 26 and 27 investment securities, trading as of June 30, 2012 and December 31, 2011, respectively.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the Company's investment securities, including those pledged as collateral and classified as available-for-sale, which are carried at fair value (in thousands):

| | Amortized Cost (1) | Unrealized Gains | Unrealized Losses | Fair Value |
|--------------------|-----------------------|---------------------|----------------------|---------------|
| June 30, 2012: | | | | |
| CMBS | \$ 178,080 | \$ 1,062 | \$(22,280) | \$ 156,862 |
| ABS | 29,703 | 842 | (2,298) | 28,247 |
| Other asset-backed | – | 23 | – | 23 |
| Total | \$ 207,783 | \$ 1,927 | \$(24,578) | \$ 185,132 |
| December 31, 2011: | | | | |
| CMBS | \$ 161,512 | \$ 1,192 | \$(29,884) | \$ 132,820 |
| ABS | 28,513 | 215 | (3,527) | 25,201 |
| Other asset-backed | – | 23 | – | 23 |
| Total | \$ 190,025 | \$ 1,430 | \$(33,411) | \$ 158,044 |

(1) As of June 30, 2012 and December 31, 2011, \$177.3 million and \$153.4 million, respectively, of securities were pledged as collateral security under related financings.

The following table summarizes the estimated maturities of the Company's CMBS and ABS according to their estimated weighted average life classifications (in thousands, except percentages):

| Weighted Average Life | Fair Value | Amortized Cost | Weighted Average Coupon |
|---|---------------|-------------------|-------------------------------|
| June 30, 2012: | | | |
| Less than one year | \$ 51,076 (1) | \$ 51,023 | 5.62% |
| Greater than one year and less than five years | 85,491 | 105,250 | 4.58% |
| Greater than five years and less than ten years | 47,026 | 49,303 | 3.67% |
| Greater than ten years | 1,539 | 2,207 | 3.71% |
| Total | \$ 185,132 | \$ 207,783 | 4.63% |
| December 31, 2011: | | | |
| Less than one year | \$ 61,137 (2) | \$ 65,485 | 2.73% |
| Greater than one year and less than five years | 69,376 | 91,826 | 4.75% |
| Greater than five years and less than ten years | 25,596 | 29,527 | 3.90% |
| Greater than ten years | 1,935 | 3,187 | 3.84% |
| Total | \$ 158,044 | \$ 190,025 | 3.82% |

(1) The Company expects that the maturity date of these CMBS will either be extended or the CMBS will be paid in full.

(2) \$6.7 million of CMBS maturing in this category are collateralized by floating-rate loans and, as permitted under the CMBS terms, are expected to extend their maturities, because, beyond their contractual extensions which expired or will expire this year, the servicer may allow further extensions of the underlying floating rate loans. The Company expects that the remaining \$53.5 million of CMBS will either have their maturity date extended or be paid in full.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

The contractual maturities of the CMBS investment securities available-for-sale range from August 2012 to July 2022. The contractual maturities of the ABS investment securities available-for-sale range from February 2013 to August 2022.

The following table shows the fair value and gross unrealized losses, aggregated by investment category and length of time, of those individual investment securities available-for-sale that have been in a continuous unrealized loss position during the periods specified (in thousands):

| | Less than 12 Months | | More than 12 Months | | Total | |
|---------------------------------------|---------------------|-------------------------|---------------------|-------------------------|------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| June 30, 2012: | | | | | | |
| CMBS | \$ 91,070 | \$ (3,421) | \$ 30,841 | \$ (18,859) | \$ 121,911 | \$ (22,280) |
| ABS | 5,016 | (73) | 6,344 | (2,225) | 11,360 | (2,298) |
| Total temporarily impaired securities | \$ 96,086 | \$ (3,494) | \$ 37,185 | \$ (21,084) | \$ 133,271 | \$ (24,578) |
| December 31, 2011: | | | | | | |
| CMBS | \$ 99,974 | \$ (17,096) | \$ 8,281 | \$ (12,788) | \$ 108,255 | \$ (29,884) |
| ABS | 13,583 | (935) | 4,473 | (2,592) | 18,056 | (3,527) |
| Total temporarily impaired securities | \$ 113,557 | \$ (18,031) | \$ 12,754 | \$ (15,380) | \$ 126,311 | \$ (33,411) |

The Company held 18 and eight CMBS investment securities available-for-sale that have been in a loss position for more than 12 months as of June 30, 2012 and December 31, 2011, respectively. The Company held 11 and seven ABS investment securities available-for-sale that have been in a loss position for more than 12 months as of June 30, 2012 and December 31, 2011, respectively. The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

The determination of other-than-temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss realization. The Company reviews its portfolios and makes other-than-temporary impairment determinations at least quarterly. The Company considers the following factors when determining if there is an other-than-temporary impairment on a security:

the length of time the market value has been less than amortized cost;

the severity of the impairment;

the expected loss of the security as generated by a third-party valuation model;

original and current credit ratings from the rating agencies;

underlying credit fundamentals of the collateral backing the securities;

whether, based upon the Company's intent, it is more likely than not that the Company will sell the security before the recovery of the amortized cost basis; and

third-party support for default, for recovery, prepayment speed and reinvestment price assumptions.

At June 30, 2012 and December 31, 2011, the Company held \$156.9 million and \$132.8 million, respectively, (net of net unrealized losses of \$21.2 million and \$28.7 million, respectively), of CMBS recorded at fair value. To determine fair value, the Company uses two methods, either a dealer quote or an internal valuation model, depending upon the current level of market activity (see Note 2). As of June 30, 2012 and December 31, 2011, \$156.9 million and \$123.9 million, respectively, of investment securities available-for-sale were valued using dealer quotes and \$0 and \$8.9 million, respectively, were valued using an internal valuation model.

At June 30, 2012 and December 31, 2011, the Company held \$28.2 million and \$25.2 million, respectively, (net of net unrealized losses of \$1.5 million and \$3.3 million), of ABS recorded at fair value (see Note 2). To determine their fair value, the Company uses dealer quotes.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 5 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

During the three and six months ended June 30, 2012 and 2011, the Company did not recognize any other-than-temporary impairment on positions that supported the Company's CMBS portfolio. The Company's securities classified as available-for-sale have increased in fair value on a net basis as of June 30, 2012 as compared to December 31, 2011 primarily due to improving dealer marks. At December 31, 2011, the Company's securities classified as available-for-sale had declined in fair value on a net basis, and the Company had concluded that the decline continued to be temporary and did not believe that any of its securities classified as available-for-sale were other-than-temporarily impaired. The Company performs an on-going review of third-party reports and updated financial data on the underlying properties in order to analyze current and projected security performance. Rating agency downgrades are considered with respect to the Company's income approach when determining other-than-temporary impairment and, when inputs are subjected to testing for economic changes within possible ranges, the resulting projected cash flows reflect a full recovery of principal and interest indicating no impairment.

During the three and six months ended June 30, 2012, the Company sold two CMBS positions with a total par of \$7.0 million and recognized a gain of \$912,000. During the three and six months ended June 30, 2011, the Company sold three CMBS positions with a total par of \$15.0 million and recognized a gain of \$3.5 million.

During the three and six months ended June 30, 2012, the Company sold two and five ABS positions with a total par of \$1.3 million and \$2.8 million, respectively, and recognized gains of \$11,000 and \$22,000, respectively. During the three and six months ended June 30, 2011, no ABS sales occurred.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on CMBS in the Company's investment portfolio. At June 30, 2012 and December 31, 2011, the aggregate discount due to interest rate changes exceeded the aggregate premium due to interest rate changes on the Company's CMBS by approximately \$11.0 million and \$13.2 million, respectively. At June 30, 2012 and December 31, 2011, the aggregate discount on the Company's ABS portfolio was \$3.6 million and \$3.8 million, respectively. There were no premiums on the Company's ABS investment portfolio.

NOTE 6 – INVESTMENTS IN REAL ESTATE

The table below summarizes the Company's investments in real estate (in thousands):

| | As of June 30, 2012 | | As of December 31, 2011 | |
|--------------------------------|---------------------|----------------------|-------------------------|----------------------|
| | Book Value | Number of Properties | Book Value | Number of Properties |
| Multi-family property | \$ 38,577 | 2 | \$ 38,577 | 2 |
| Office property | 10,149 | 1 | 10,149 | 1 |
| Subtotal | 48,726 | | 48,726 | |
| Less: Accumulated depreciation | (1,364) | | (699) | |
| Investments in real estate | \$ 47,362 | | \$ 48,027 | |

Acquisitions

During the six months ended June 30, 2012, the Company made no acquisitions. During the year ended December 31, 2011, the Company converted two loans it had originated to investments in real estate and acquired one real estate asset, summarized as follows:

On June 14, 2011, the Company converted a loan that it had originated to equity with a fair value of \$22.4 million at acquisition. The loan was collateralized by a 400 unit multi-family property in Memphis, Tennessee. The property was 93.8% occupied at acquisition.

On June 24, 2011, the Company converted a loan that it had originated to equity with a fair value of \$10.7 million at acquisition. The loan was collateralized by an office building in Pacific Palisades, California. The property was 60% occupied at acquisition.

On August 1, 2011, the Company, through its subsidiary RCC Real Estate, purchased Whispertree Apartments, a 504 multi-family property located in Houston, Texas, for \$18.1 million, the fair value. The property was 95% occupied at acquisition. In conjunction with the purchase of this property, the Company entered into a mortgage in the amount of \$13.6 million.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 6 – INVESTMENTS IN REAL ESTATE – (Continued)

A summary of the aggregate estimated fair value of the assets and liabilities acquired on the respective dates of acquisition during the year ended December 31, 2011 are presented below (in thousands):

| Description | Estimated Fair Value |
|---|-------------------------|
| Assets acquired: | |
| Investments in real estate | \$ 48,683 |
| Cash and cash equivalents | 177 |
| Restricted cash | 2,360 |
| Intangible assets | 2,490 |
| Other assets | 391 |
| Total assets acquired | 54,101 |
| Liabilities assumed: | |
| Accounts payable and other liabilities | 673 |
| Total liabilities assumed | 673 |
| Estimated fair value of net assets acquired | \$ 53,428 |

The Company accounted for the acquisition of Whispertree Apartments as a business combination in accordance with FASB ASC Topic 805. In the fourth quarter of 2011, the Company obtained the final appraisal of the property. Based on the final appraisal, the Company adjusted the value of the land and the value of the building by \$3.9 million, respectively, as of the acquisition date. Accordingly, these adjustments were recognized and are reflected in the consolidated financial statements as of June 30, 2012 and December 31, 2011.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 7 – LOANS HELD FOR INVESTMENT

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

| Loan Description | Principal | Unamortized (Discount) Premium (1) | Carrying Value (2) |
|------------------------------------|-------------|--|-----------------------|
| June 30, 2012: | | | |
| Bank loans (3) | \$1,155,637 | \$ (23,530) | \$1,132,107 |
| Commercial real estate loans: | | | |
| Whole loans(4) | 583,312 | (2,079) | 581,233 |
| B notes | 16,511 | (129) | 16,382 |
| Mezzanine loans | 67,807 | 40 | 67,847 |
| Total commercial real estate loans | 667,630 | (2,168) | 665,462 |
| Subtotal loans before allowances | 1,823,267 | (25,698) | 1,797,569 |
| Allowance for loan loss | (12,376) | – | (12,376) |
| Total | \$1,810,891 | \$ (25,698) | \$1,785,193 |
| December 31, 2011: | | | |
| Bank loans (3) | \$1,205,826 | \$ (32,073) | \$1,173,753 |
| Commercial real estate loans: | | | |
| Whole loans | 545,828 | (1,155) | 544,673 |
| B notes | 16,579 | (144) | 16,435 |
| Mezzanine loans | 67,842 | 32 | 67,874 |
| Total commercial real estate loans | 630,249 | (1,267) | 628,982 |
| Subtotal loans before allowances | 1,836,075 | (33,340) | 1,802,735 |
| Allowance for loan loss | (27,518) | – | (27,518) |
| Total | \$1,808,557 | \$ (33,340) | \$1,775,217 |

(1) Amounts include deferred amendment fees of \$378,000 and \$286,000 and deferred upfront fees of \$384,000 and \$0 being amortized over the life of the bank loans. Amounts include loan origination fees of \$1.1 million and \$984,000 and loan extension & exit fees of \$911,000 and \$123,000 being amortized over the life of the commercial real estate loans as of June 30, 2012 and December 31, 2011, respectively.

(2) Substantially all loans are pledged as collateral under various borrowings at June 30, 2012 and December 31, 2011, respectively.

(3) Amounts include \$15.1 million and \$3.2 million of bank loans held for sale at June 30, 2012 and December 31, 2011, respectively.

(4) Amount includes \$34.0 million of a whole loan that is classified as a loan held for sale at June 30, 2012.

At June 30, 2012 and December 31, 2011, approximately 41.1% and 41.9%, respectively, of the Company's commercial real estate loan portfolio was concentrated in commercial real estate loans located in California; approximately 8.5% and 9.1%, respectively, in Arizona; and approximately 7.6% and 8.0%, respectively, in Florida. At each of June 30, 2012 and December 31, 2011, approximately 13.9%, of the Company's bank loan portfolio was concentrated in the collective industry grouping of healthcare, education and childcare.

At June 30, 2012, the Company's bank loan portfolio consisted of \$1.1 billion (net of allowance of \$5.2 million) of floating rate loans, which bear interest ranging between the three month London Interbank Offered Rate ("LIBOR") plus 1.4% and three month LIBOR plus 10.0% with maturity dates ranging from November 2012 to September 2019. At December 31, 2011, the Company's bank loan portfolio consisted of \$1.2 billion (net of allowance of \$3.3 million) of floating rate loans, which bear interest ranging between three month LIBOR plus 1.1%, and three month LIBOR plus 10.6% with maturity dates ranging from March 2012 to September 2019.

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NOTE 7 – LOANS HELD FOR INVESTMENT – (Continued)

The following is a summary of the weighted average life of the Company's bank loans, at amortized cost (in thousands):

| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Less than one year | \$ 9,013 | \$ 1,968 |
| Greater than one year and less than five years | 734,107 | 684,376 |
| Five years or greater | 388,987 | 487,409 |
| | \$ 1,132,107 | \$ 1,173,753 |

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

| Description | Quantity | Amortized Cost | Contracted Interest Rates | Maturity Dates (3) |
|---|----------|-------------------|---|---------------------------------------|
| June 30, 2012: | | | | |
| Whole loans, floating rate (1) (4) (5) (6) | 37 | \$ 581,233 | LIBOR plus 2.00% to LIBOR plus 5.75% | September 2012 to February 2019 |
| B notes, fixed rate | 1 | 16,382 | 8.68% | April 2016 |
| Mezzanine loans, floating rate | 3 | 53,921 | LIBOR plus 2.50% to LIBOR plus 7.45% | August 2012 to December 2012 |
| Mezzanine loans, fixed rate | 2 | 13,926 | 8.99% to 11.00% | January 2016 to September 2016 |
| Total (2) | 43 | \$ 665,462 | | |
| December 31, 2011: | | | | |
| Whole loans, floating rate (1) (4) (5) | 32 | \$ 537,708 | LIBOR plus 2.50% to LIBOR plus 5.75% | April 2012 to February 2019 |
| Whole loans, fixed rate | 1 | 6,965 | 10.00% | June 2012 |
| B notes, fixed rate | 1 | 16,435 | 8.68% | April 2016 |
| Mezzanine loans, floating rate | 3 | 53,908 | LIBOR plus 2.50% to LIBOR plus 7.45% | May 2012 to December 2012 |
| Mezzanine loans, fixed rate | 2 | 13,966 | 8.99% to 11.00% | January 2016 to September 2016 |
| Total (2) | 39 | \$ 628,982 | | |

(1) Whole loans had \$6.1 million and \$5.2 million in unfunded loan commitments as of June 30, 2012 and December 31, 2011, respectively. These commitments are funded as the borrowers require additional funding and have satisfied the requirements to obtain this additional funding.

(2)

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The total does not include an allowance for loan loss of \$7.2 million and \$24.2 million as of June 30, 2012 and December 31, 2011, respectively.

- (3) Maturity dates do not include possible extension options that may be available to the borrowers.
- (4) Floating rate whole loans include a \$2.0 million portion of a whole loan that has a fixed rate of 15.0% as of June 30, 2012 and December 31, 2011, respectively.
- (5) Floating rate whole loans include a \$597,000 and \$302,000 preferred equity tranche of a whole loan that has a fixed rate of 10.0% as of June 30, 2012 and December 31, 2011, respectively.
- (6) Amount includes \$34.0 million for a whole loan that is classified as a loan held for sale at June 30, 2012.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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NOTE 7 – LOANS HELD FOR INVESTMENT – (Continued)

The following is a summary of the weighted average life of the Company's commercial real estate loans, at amortized cost (in thousands):

| Description | 2012 | 2013 | 2014 and Thereafter | Total |
|---------------------------|------------------|----------------|------------------------|------------------|
| June 30, 2012: | | | | |
| B notes | \$– | \$– | \$16,382 | \$16,382 |
| Mezzanine loans | 43,404 | – | 24,443 | 67,847 |
| Whole loans | 21,750 | 3,250 | 556,233 | 581,233 |
| Total (1) | \$65,154 | \$3,250 | \$597,058 | \$665,462 |
| December 31, 2011: | | | | |
| B notes | \$– | \$– | \$16,435 | \$16,435 |
| Mezzanine loans | 38,072 | 5,319 | 24,483 | 67,874 |
| Whole loans | 97,327 | 3,250 | 444,096 | 544,673 |
| Total (1) | \$135,399 | \$8,569 | \$485,014 | \$628,982 |

(1) Weighted average life of commercial real estate loans assumes full exercise of extension options available to borrowers.

The following is a summary of the allocation of the allowance for loan loss with respect to the Company's commercial real estate and bank loans (in thousands, except percentages) by asset class:

| Description | Allowance for Loan Loss | Percentage of Total Allowance |
|---------------------------|----------------------------|----------------------------------|
| June 30, 2012: | | |
| B notes | \$ 238 | 1.93% |
| Mezzanine loans | 988 | 7.99% |
| Whole loans | 5,936 | 47.95% |
| Bank loans | 5,214 | 42.13% |
| Total | \$ 12,376 | |
| December 31, 2011: | | |
| B notes | \$ 253 | 0.92% |
| Mezzanine loans | 1,437 | 5.23% |
| Whole loans | 22,531 | 81.87% |
| Bank loans | 3,297 | 11.98% |
| Total | \$ 27,518 | |

As of June 30, 2012, the Company had recorded an allowance for loan losses of \$12.4 million consisting of a \$5.2 million allowance on the Company's bank loan portfolio and a \$7.2 million allowance on the Company's commercial

real estate portfolio as a result of the impairment of three bank loans and one commercial real estate loan as well as the maintenance of a general reserve with respect to these portfolios. The whole loan allowance decreased \$16.6 million from \$22.5 million as of December 31, 2011 to \$5.9 million as of June 30, 2012. This decrease is primarily the result of a charge to the allowance resulting from a CRE loan that restructured with a new borrower and new use for the underlying property.

As of December 31, 2011, the Company had recorded an allowance for loan losses of \$27.5 million consisting of a \$3.3 million allowance on the Company's bank loan portfolio and a \$24.2 million allowance on the Company's commercial real estate portfolio as a result of the impairment of one bank loan and four commercial real estate loans as well as the maintenance of a general reserve with respect to these portfolios.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2012
(Unaudited)

NOTE 8 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

On November 16, 2011, the Company, together with LEAF Financial and LEAF Commercial Capital, Inc. (“LCC”), a commercial finance company specializing in equipment leasing formed in January 2011, each of which is a subsidiary of Resource America, entered into a stock purchase agreement and related agreements (collectively the “SPA”) with Eos Partners, L.P., a private investment firm, and its affiliates (“Eos”). In exchange for its prior interest in LCC, the Company received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock (the “Series B Preferred Stock”) and 2,364 shares of newly issued Series D Redeemable Preferred Stock (the “Series D Preferred Stock”), collectively representing, on a fully-diluted basis assuming conversion, a 26.7% interest in LCC. The Company’s investment in LCC was valued at \$36.3 million based on a third-party valuation. Several approaches were used, including discounted expected cash flows, market approach and comparable sales transactions to estimate the fair value of its investment in LCC as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. The Company recorded a loss of \$2.2 million in conjunction with the transaction. The Company’s resulting interest is accounted for under the equity method. For the three and six months ended June 30, 2012, the Company recorded a loss of \$1.3 million which was recorded in other expense on the consolidated statement of income. The Company’s investment in LCC was valued at \$35.1 million as of June 30, 2012.

The Company has a 100% interest valued at \$1.5 million in the common shares (3% of the total equity) in two trusts, Resource Capital Trust I (“RCT I”) and RCC Trust II (“RCT II”). The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts. The Company does not have the power to direct the activities of either trust, nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these trusts. Therefore, the Company is not deemed to be the primary beneficiary of either trust and they are not consolidated into the Company’s consolidated financial statements. The Company records its investments in RCT I and RCT II’s common shares of \$774,000 each as investments in unconsolidated trusts using the cost method and records dividend income upon declaration by RCT I and RCT II. For the three and six months ended June 30, 2012, the Company recognized \$578,000 and \$1.2 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included \$45,000 and \$90,000, respectively, of amortization of deferred debt issuance costs. For the three and six months ended June 30, 2011, the Company recognized \$891,000 and \$1.8 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included \$78,000 and \$154,000, respectively, of amortization of deferred debt issuance costs. The Company will continuously reassess whether it should be deemed to be the primary beneficiary of the trusts.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

JUNE 30, 2012

(Unaudited)

NOTE 9 –FINANCING RECEIVABLES

The following tables show the allowance for loan losses and recorded investments in loans for the years indicated (in thousands):

| | Commercial Real Estate Loans | Bank Loans | Lease Receivables | Loans Receivable-Related Party | Total |
|--|------------------------------------|--------------|----------------------|--------------------------------------|--------------|
| June 30, 2012: | | | | | |
| Allowance for losses at | | | | | |
| January 1, 2012 | \$ 24,221 | \$ 3,297 | \$ – | \$ – | \$ 27,518 |
| Provision for loan loss | 3,836 | 2,595 | – | – | 6,431 |
| Loans charged-off | (20,895) | (678) | – | – | (21,573) |
| Recoveries | – | – | – | – | – |
| Allowance for losses at | | | | | |
| June 30, 2012 | \$ 7,162 | \$ 5,214 | \$ – | \$ – | \$ 12,376 |
| Ending balance: | | | | | |
| Individually evaluated for impairment | \$ 1,375 | \$ 2,130 | \$ – | \$ – | \$ 3,505 |
| Collectively evaluated for impairment | \$ 5,787 | \$ 3,084 | \$ – | \$ – | \$ 8,871 |
| Loans acquired with deteriorated credit quality | \$ – | \$ – | \$ – | \$ – | \$ – |
| Loans: | | | | | |
| Ending balance: | | | | | |
| Individually evaluated for impairment | \$ 98,570 | \$ 4,965 | \$ – | \$ 9,438 | \$ 112,973 |
| Collectively evaluated for impairment | \$ 566,892 | \$ 1,127,142 | \$ – | \$ – | \$ 1,694,034 |
| Loans acquired with deteriorated credit quality | \$ – | \$ – | \$ – | \$ – | \$ – |
| December 31, 2011: | | | | | |
| Allowance for losses at | | | | | |
| January 1, 2011 | \$ 31,617 | \$ 2,616 | \$ 70 | \$ – | \$ 34,303 |
| Provision for loan loss | 6,478 | 7,418 | – | – | 13,896 |
| Loans charged-off | (13,874) | (6,737) | (70) | – | (20,681) |
| Recoveries | – | – | – | – | – |
| Allowance for losses at | | | | | |
| December 31, 2011 | \$ 24,221 | \$ 3,297 | \$ – | \$ – | \$ 27,518 |
| Ending balance: | | | | | |
| Individually evaluated for impairment | \$ 17,065 | \$ 1,593 | \$ – | \$ – | \$ 18,658 |
| Collectively evaluated for impairment | \$ 7,156 | \$ 1,704 | \$ – | \$ – | \$ 8,860 |
| Loans acquired with deteriorated credit quality | \$ – | \$ – | \$ – | \$ – | \$ – |
| Loans: | | | | | |
| Ending balance: | | | | | |
| Individually evaluated for impairment | \$ 113,038 | \$ 2,693 | \$ – | \$ 9,497 | \$ 125,228 |
| Collectively evaluated for impairment | \$ 515,944 | \$ 1,171,060 | \$ – | \$ – | \$ 1,687,004 |

| | | | | | |
|--|------|------|------|------|------|
| Loans acquired with deteriorated credit quality | \$ - | \$ - | \$ - | \$ - | \$ - |
|--|------|------|------|------|------|

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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NOTE 9 –FINANCING RECEIVABLES – (Continued)

Credit quality indicators

Bank Loans

The Company uses a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing the Company's highest rating and 5 representing its lowest rating. The Company also designates loans that are sold after the period end at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. The Company considers such things as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics in grading its bank loans.

Credit risk profiles of bank loans were as follows (in thousands):

| | Rating 1 | Rating 2 | Rating 3 | Rating 4 | Rating 5 | Held for Sale | Total |
|--------------------------|--------------|-----------|-----------|-----------|----------|---------------|--------------|
| As of June 30, 2012: | | | | | | | |
| Bank loans | \$ 1,041,968 | \$ 15,236 | \$ 44,652 | \$ 10,172 | \$ 4,965 | \$ 15,114 | \$ 1,132,107 |
| As of December 31, 2011: | | | | | | | |
| Bank loans | \$ 1,076,298 | \$ 19,739 | \$ 60,329 | \$ 11,540 | \$ 2,693 | \$ 3,154 | \$ 1,173,753 |

All of the Company's bank loans are performing with the exception of three loans with a total carrying amount of \$5.0 million as of June 30, 2012, two of which defaulted as of March 31, 2012 and one of which defaulted on December 30, 2011.

Commercial Real Estate Loans

The Company uses a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing the Company's highest rating and 4 representing its lowest rating. The Company designates loans that are sold after the period end at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. In addition to the underlying performance of the loan collateral, the Company considers such things as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms in grading its commercial real estate loans.

Credit risk profiles of commercial real estate loans were as follows (in thousands):

| | Rating 1 | Rating 2 | Rating 3 | Rating 4 | Held for Sale | Total |
|--|----------|----------|----------|----------|---------------|-------|
|--|----------|----------|----------|----------|---------------|-------|

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As of June 30, 2012:

| | | | | | | |
|-----------------|------------|-----------|-----------|------|-----------|------------|
| Whole loans | \$ 419,506 | \$ 28,750 | \$ 98,977 | \$ - | \$ 34,000 | \$ 581,233 |
| B notes | 16,382 | - | - | - | - | 16,382 |
| Mezzanine loans | 23,338 | - | 44,509 | - | | |