Resource Capital Corp.
Form 10-Q
August 09, 2013

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
o 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	20-2287134
(State or other jurisdiction of incorporation or organization)	(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 R 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 R No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨		Accelerated filer	R
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes R No
The number of outstanding shares of the registrant’s common stock on August 6, 2013 was 127,000,362 shares.

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT
ON FORM 10-Q

(Back to Index)

(Back to Index)

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS [1]		
Cash and cash equivalents	$168,402	$85,278
Restricted cash	100,961	94,112
Investment securities, trading	12,266	24,843
Property available-for-sale	19,620	—
Investment securities available-for-sale, pledged as collateral, at fair value	194,649	195,200
Investment securities available-for-sale, at fair value	40,359	36,390
Linked transactions, net at fair value	25,281	6,835
Loans held for sale	20,127	48,894
Investment in real estate	55,361	75,386
Loans, pledged as collateral and net of allowances of $14.1 million and $17.7 million	1,658,611	1,793,780
Loans receivable–related party	7,962	8,324
Investments in unconsolidated entities	63,405	45,413
Interest receivable	8,090	7,763
Deferred tax asset	3,120	2,766
Principal paydown receivable	3,133	25,570
Intangible assets	12,196	13,192
Prepaid expenses	6,118	10,396
Other assets	2,819	4,109
Total assets	$2,402,480	$2,478,251
LIABILITIES [2]		
Borrowings	$1,558,910	$1,785,600
Distribution payable	26,694	21,655
Accrued interest expense	3,276	2,918
Derivatives, at fair value	12,705	14,687
Accrued tax liability	3,817	13,641
Deferred tax liability	8,376	8,376
Accounts payable and other liabilities	11,258	18,029
Total liabilities	1,625,036	1,864,906
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 8.50% Series A 100,000,000 shares authorized, 676,373 shares issued and outstanding	1	1
Preferred stock, par value $0.001: 8.25% Series B 100,000,000 shares authorized, 3,072,767 and 1,126,898 shares issued and outstanding	3	1
Common stock, par value $0.001: 500,000,000 shares authorized; 126,992,913 and 105,118,093 shares issued and outstanding (including 3,011,215 and 3,308,343 unvested restricted shares)	127	105
Additional paid-in capital	1,022,253	836,053

Accumulated other comprehensive loss	(20,106)	(27,078)
Distributions in excess of earnings	(224,834)	(195,737)
Total stockholders' equity	777,444	613,345
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,402,480	$2,478,251

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013 (Unaudited)	December 31, 2012
(1) Assets of consolidated Variable Interest Entities ("VIEs") included in the total assets above:		
Restricted cash	$94,285	$90,108
Investments securities available-for-sale, pledged as collateral, at fair value	136,249	135,566
Loans held for sale	20,127	14,894
Loans, pledged as collateral and net of allowances of $9.5 million and $15.2 million	1,410,187	1,678,719
Interest receivable	5,654	5,986
Prepaid expenses	220	328
Principal paydown receivable	31	25,570
Other assets	35	333
Total assets of consolidated VIEs	$1,666,788	$1,951,504
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Borrowings	$1,345,454	$1,614,882
Accrued interest expense	2,429	2,666
Derivatives, at fair value	12,237	14,078
Accounts payable and other liabilities	683	698
Total liabilities of consolidated VIEs	$1,360,803	$1,632,324

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
REVENUES				
Interest income:				
Loans	$26,184	$23,012	$53,996	$46,627
Securities	3,896	3,551	7,538	6,956
Interest income – other	635	3,157	2,501	5,986
Total interest income	30,715	29,720	64,035	59,569
Interest expense	11,134	8,869	22,299	17,252
Net interest income	19,581	20,851	41,736	42,317
Rental income	5,052	2,034	11,226	3,953
Dividend income	17	17	33	34
Equity in income (losses) of unconsolidated subsidiaries	72	(1,761)	(353)	(690)
Fee income	1,527	2,141	2,937	3,751
Net realized gain on sales of investment securities available-for-sale and loans	2,394	1,422	2,785	1,802
Net realized and unrealized (loss) gain on investment securities, trading	(1,751)	1,424	(635)	3,568
Unrealized (loss) gain and net interest income on linked transactions, net	(5,245)	134	(5,504)	253
Total revenues	21,647	26,262	52,225	54,988
OPERATING EXPENSES				
Management fees – related party	2,915	4,548	5,893	7,991
Equity compensation – related party	2,155	1,140	5,746	2,008
Professional services	903	617	2,349	1,717
Insurance	212	159	374	317
Rental operating expense	3,624	1,309	7,561	2,629
General and administrative	1,267	1,470	3,140	2,533
Depreciation and amortization	999	1,364	2,137	2,725
Income tax expense	1,737	384	3,499	2,999
Net impairment losses recognized in earnings	535	32	556	171
(Benefit) provision for loan losses	(1,242)	4,253	(200)	6,431
Total operating expenses	13,105	15,276	31,055	29,521
	8,542	10,986	21,170	25,467
OTHER REVENUE (EXPENSE)				
Gain on the extinguishment of debt	—	5,464	—	5,464
Total other revenue (expense)	—	5,464	—	5,464
NET INCOME	8,542	16,450	21,170	30,931
Net income allocated to preferred shares	(1,800)	(25)	(3,111)	(25)
Net income from non-controlling interests	(209)	—	—	—
NET INCOME ALLOCABLE TO COMMON SHARES	$6,533	$16,425	$18,059	$30,906
NET INCOME PER COMMON SHARE – BASIC	$0.05	$0.20	$0.16	$0.38

NET INCOME PER COMMON SHARE – DILUTED	$0.05	$0.20	$0.16	$0.37
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	120,738,176	83,466,810	112,508,254	82,334,303
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	122,283,503	84,188,216	113,832,183	83,040,604

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$8,542	$16,450	$21,170	$30,931
Other comprehensive income:				
Reclassification adjustment for (gains) losses included in net income	(4,498)	922	(5,125)	934
Unrealized gains (losses) on available-for-sale securities, net	4,699	(2,203)	9,922	8,396
Reclassification adjustments associated with unrealized losses (gains) from interest rate hedges included in net income	138	55	193	112
Unrealized gains (losses) on derivatives, net	1,330	(266)	1,982	(360)
Total other comprehensive income	1,669	(1,492)	6,972	9,082
Comprehensive income allocable to common shares	$10,211	$14,958	$28,142	$40,013

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(in thousands, except share and per share data)
(Unaudited)

	Common Stock								
	Shares	Amount	Preferred Shares - Series A	Preferred Shares - Series B	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
Balance, December 31, 2012	105,118,093	$ 105	$ 1	$ 1	$ 836,053	$ (27,078)	$ —	$ (195,737)	$ 613,345
Proceeds from dividend reinvestment and stock purchase plan	2,926,167	3	—	—	18,164	—	—	—	18,167
Proceeds from issuance of common stock	18,687,500	19	—	—	118,259	—	—	—	118,278
Proceeds from issuance of preferred stock	—	—	2	—	48,349	—	—	—	48,351
Offering costs	—	—	—	—	(4,970)	—	—	—	(4,970)
Stock based compensation	263,343	—	—	—	652	—	—	—	652
Amortization of stock based compensation	—	—	—	—	5,746	—	—	—	5,746
Forfeitures	(2,190)	—	—	—	—	—	—	—	—
Net Income	—	—	—		—	—	21,170	—	21,170
Preferred dividends	—	—	—	—	—	—	(3,111)	—	(3,111)
Securities available-for-sale, fair value adjustment, net	—	—	—		—	4,797	—	—	4,797
Designated derivatives, fair value adjustment	—	—	—	—	—	2,175	—	—	2,175
Distributions on common stock	—	—	—	—	—	—	(18,059)	(29,097)	(47,156)
Balance, June 30, 2013	126,992,913	$ 127	$ 3	$ 1	$ 1,022,253	$ (20,106)	$ —	$ (224,834)	$ 777,444

The accompanying notes are an integral part of these statements

(Back to Index)

7

(Back to Index)

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

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$21,170	$30,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(200)	6,431
Depreciation of investments in real estate and other	1,202	789
Amortization of intangible assets	996	1,936
Amortization of term facilities	495	455
Accretion of net discounts on loans held for investment	(6,930)	(8,013)
Accretion of net discounts on securities available-for-sale	(1,430)	(1,559)
Amortization of discount on notes of CDOs	1,772	689
Amortization of debt issuance costs on notes of CDOs	1,965	2,356
Amortization of stock-based compensation	5,746	2,008
Amortization of terminated derivative instruments	193	113
Distribution accrued to preferred stockholders	(3,111)	—
Accretion of interest-only available-for-sales securities	(485)	—
Non-cash incentive compensation to the Manager	—	613
Deferred income tax benefits	(115)	(1,718)
Purchase of securities, trading	(10,044)	(8,348)
Principal payments on securities, trading	3,272	898
Proceeds from sales of securities, trading	18,713	5,531
Net realized and unrealized loss (gain) on investment securities, trading	635	(3,568)
Net realized gain on sales of investment securities available-for-sale and loans	(2,785)	(1,802)
Gain on early extinguishment of debt	—	(1,835)
Net impairment losses recognized in earnings	548	171
Linked transactions fair value adjustments	6,385	—
Equity in losses of unconsolidated subsidiaries	353	690
Minority interest equity	1,759	—
Changes in operating assets and liabilities	6,635	(13,839)
Net cash provided by operating activities	46,739	12,929

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

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

CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	(5,926)	64,085
Purchase of securities available-for-sale	(96,031)	(39,184)
Principal payments on securities available-for-sale	20,040	17,954
Proceeds from sale of securities available-for-sale	7,025	6,719
Investment in unconsolidated entity	(15,534)	1,470
Improvement of real estate held-for-sale	(404)	(138)
Proceeds from sale of real estate held-for-sale	—	2,886
Purchase of loans	(377,679)	(340,523)
Principal payments received on loans	386,686	240,407
Proceeds from sale of loans	170,450	93,236
Distributions from investments in real estate	522	851
Improvements in investments in real estate	(365)	(504)
Purchase of intangible asset	—	(1,517)
Principal payments received on loans – related parties	362	137
Net cash provided by investing activities	89,146	45,879
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuances of common stock (net of offering costs of $4,265 and $0)	114,018	—
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $0 and $19)	18,164	32,282
Proceeds from issuance of 8.5% Series A redeemable preferred shares (net of offering costs of $486 and $0)	—	5,832
Proceeds from issuance of 8.25% Series B redeemable preferred shares (net of offering costs of $707 and $0)	47,644	—
Proceeds from borrowings:		
Repurchase agreements	104,325	44,295
Payments on borrowings:		
Collateralized debt obligations	(286,962)	(108,881)
Retirement of debt	—	(4,850)
Payment of debt issuance costs	(1,178)	(586)
Payment of equity to third party sub-note holders	(2,661)	(1,219)
Distributions paid on preferred stock	(2,446)	—
Distributions paid on common stock	(43,665)	(36,900)
Net cash (used in) financing activities	$(52,761)	$(70,027)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	83,124	(11,219)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	85,278	43,116
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$168,402	$31,897
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$20,214	$8,253

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(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 100% of the equity of the following VIE:

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

- RCC Commercial II, Inc. ("Commercial II") holds bank loan investments. Commercial II owns 100% and 68.3%, respectively, of the equity of the following VIEs:

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, ABS and corporate bonds.

Whitney CLO I, Ltd. ("Whitney CLO I"), a Cayman Islands limited liability company and TRS. Whitney CLO I is a collateralized loan obligation ("CLO") issuance secured by a portfolio of bank loans and corporate bonds. The Company is the primary beneficiary of Whitney CLO I and therefore consolidates 100% of this VIE in its financial statements.

- RCC Commercial III, Inc. ("Commercial III") holds bank loan investments and commercial real estate-related securities. Commercial III owns 90% of the equity of the following VIE:

Apidos CDO I, Ltd. ("Apidos CDO I"), a Cayman Islands limited liability company and TRS. Apidos CDO I 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 owns 100% of the following :
- Resource TRS, LLC, a Delaware limited liability company, established to invest in structured finance securities through an investment manager, including securities issued by CDOs, ABS and CMBS.
- Resource TRS II, Inc. ("Resource TRS II"), a TRS directly owned by the Company, holds the Company's management rights in bank loan CLOs 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 four CLO 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 ("CVC Credit Partners"). Whitney CLO I, one of the RCAM CLOs, is consolidated in the Company's financial statements as a result of a purchase of its preferred equity which gave the Company a controlling interest.

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

- 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 and corporate bonds. The Company is the primary beneficiary of Apidos CLO VIII and therefore consolidates 100% of this VIE in its financial statements.
- Resource TRS IV, Inc. (“Resource TRS IV”), a TRS directly owned by the Company, holds the Company's equity investment in hotel condominium units acquired in conjunction with a loan foreclosure.
- Resource TRS V, Inc. (“Resource TRS V”), a TRS directly owned by the Company, holds the Company's equity investment in a held for sale condominium complex.
- RSO EquityCo, LLC owns 10% of the equity of Apidos CDO I and 10% of the equity of Apidos CLO VIII.
- Long Term Care Conversion, Inc. (LTCC), a TRS directly owned by the Company is a Delaware corporate which owns 100% of the following entity:
- Long Term Care Conversion, Funding (LTCC Funding), a New York limited liability company, owns a 30% equity interest in Life Care Funding, LLC (LCF) and provides funding through a financing facility to fund the acquisition of life settlement contracts.
- LCF, a New York limited liability company, is a joint venture between LTCC and Life Care Funding Group Partners and was established for the purpose of originating and acquiring life settlement contracts.

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 19). To determine fair value, the Company uses a third-party valuation firm utilizing appropriate prepayment, default, and recovery rates. These valuations are validated utilizing dealer quotes or bids. If there is a material difference between the value indicated by the third-party valuation firm and the dealer quote or bid, the Company will evaluate the difference which could result in an updated valuation from the third party or a revised dealer quote. Any changes in fair value are recorded in the Company’s results of operations as net realized and unrealized gain on investment securities, trading.

The Company’s investment securities available-for-sale are reported at fair value (see Note 19). 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.

(Back to Index)

(Back to Index)

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.

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.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS − (Continued)
JUNE 30, 2013
(Unaudited)

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 lives. Acquisitions of real estate assets and any related intangible assets are recorded initially at fair value under Financial Accounting Standards Board ("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 lives

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.

There were no impairment charges recorded on the Company's investment in real estate or intangible assets during the three and six months ended June 30, 2013 and 2012.

Recent Accounting Standards

In July 2013, the FASB issued guidance which permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes. This guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect adoption will have a material impact on the its consolidated financial statements.

In June 2013, the FASB issued guidance which clarifies the characteristics of an investment company, provides comprehensive guidance for assessing whether an entity is an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. The guidance also requires additional disclosure. This guidance is effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The Company is currently evaluating the effect of adoption, but does not expect adoption will have a material impact on its consolidated financial statements.

In February 2013 the FASB issued guidance which amends required information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendment in this guidance was effective for reporting periods beginning after December 15, 2012. The Company provided the enhanced footnote disclosure as required by this amendment in its consolidated financial statements (see Note 16).

(Back to Index)

In January 2013, the FASB issued guidance which clarifies the scope of accounting for certain derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments in this guidance were effective for interim and annual reporting periods beginning on or after January 1, 2013 and must be applied retrospectively for all comparative periods presented. The Company provided the enhanced footnote disclosure as required by this amendment in its consolidated financial statements (see Note 21).

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 presentation.

NOTE 3 – VARIABLE INTEREST ENTITITES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes) and its CDOs in order to determine if