

Resource Capital Corp.  
Form 10-Q  
August 09, 2016

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, 2016

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 20-2287134

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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, 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   
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  No

The number of outstanding shares of the registrant's common stock on August 4, 2016 was 31,165,637 shares.



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RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
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ON FORM 10-Q

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## RESOURCE CAPITAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS <sup>(1)</sup></b>		
Cash and cash equivalents	\$65,167	\$78,756
Restricted cash	6,823	40,635
Investment securities, trading	3,982	25,550
Investment securities available-for-sale, pledged as collateral, at fair value	88,122	162,306
Investment securities available-for-sale, at fair value	167,158	45,782
Loans held for sale (\$161.1 million and \$94.5 million at fair value)	420,308	95,946
Loans, pledged as collateral and net of allowances of \$1.4 million and \$47.1 million	1,476,880	2,160,751
Investments in unconsolidated entities	76,801	50,030
Derivatives, at fair value	6,133	3,446
Interest receivable	8,868	14,009
Deferred tax asset, net	16,916	12,646
Principal paydown receivable	8,100	17,941
Direct financing leases, net of allowances of \$0.5 million	665	931
Intangible assets	26,726	26,228
Prepaid expenses	5,058	3,180
Other assets	12,137	22,295
Total assets	\$2,389,844	\$2,760,432
<b>LIABILITIES <sup>(2)</sup></b>		
Borrowings	\$1,575,219	\$1,895,288
Distribution payable	17,060	17,351
Accrued interest expense	5,282	5,604
Derivatives, at fair value	3,084	3,941
Accrued tax liability	139	549
Accounts payable and other liabilities	12,629	10,939
Total liabilities	1,613,413	1,933,672
<b>EQUITY</b>		
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.50% Series A cumulative redeemable preferred shares, liquidation preference \$25.00 per share 1,069,016 and 1,069,016 shares issued and outstanding	1	1
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.25% Series B cumulative redeemable preferred shares, liquidation preference \$25.00 per share 5,544,5796 and 5,740,479 shares issued and outstanding		6
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.625% Series C cumulative redeemable preferred shares, liquidation preference \$25.00 per share 4,800,0005 and 4,800,000 shares issued and outstanding		5
Common stock, par value \$0.001: 125,000,000 shares authorized; 31,163,780 and 31,562,724 shares issued and outstanding (including 655,775 and 691,369 unvested restricted shares)	31	32
Additional paid-in capital	1,218,340	1,228,346
Accumulated other comprehensive income (loss)	700	(2,923 )

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Distributions in excess of earnings	(441,522 )	(406,603 )
Total stockholders' equity	777,561	818,864
Non-controlling interests	(1,130 )	7,896
Total equity	776,431	826,760
TOTAL LIABILITIES AND EQUITY	\$2,389,844	\$2,760,432

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

	June 30, 2016 (unaudited)	December 31, 2015
(1) Assets of consolidated Variable Interest Entities ("VIEs") included in the total assets above:		
Cash and cash equivalents	\$ —	\$ 95
Restricted cash	6,595	39,061
Investment securities available-for-sale, pledged as collateral, at fair value	—	66,137
Loans held for sale	—	1,475
Loans, pledged as collateral and net of allowances of \$1.0 million and \$42.8 million	942,182	1,416,441
Interest receivable	3,767	6,592
Prepaid expenses	42	238
Principal paydown receivable	8,100	17,800
Other assets	41	833
Total assets of consolidated VIEs	\$ 960,727	\$ 1,548,672
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Borrowings	\$ 634,553	\$ 1,032,581
Accrued interest expense	549	923
Derivatives, at fair value	—	3,346
Accounts payable and other liabilities	157	(117 )
Total liabilities of consolidated VIEs	\$ 635,259	\$ 1,036,733

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
<b>REVENUES</b>				
Interest income:				
Loans	\$31,365	\$29,759	\$65,477	\$62,422
Securities	4,291	5,500	9,089	9,552
Leases	39	163	(15)	) 258
Interest income - other	2,307	1,119	3,548	1,951
Total interest income	38,002	36,541	78,099	74,183
Interest expense	18,636	15,803	34,407	30,705
Net interest income	19,366	20,738	43,692	43,478
Dividend income	18	17	35	33
Fee income	103	2,816	(598)	) 3,986
Total revenues	19,487	23,571	43,129	47,497
<b>OPERATING EXPENSES</b>				
Management fees - related party	3,099	3,500	7,136	7,060
Equity compensation - related party	1,415	791	2,678	1,786
Rental operating expense	—	—	—	6
Lease operating	1	24	4	47
General and administrative	11,153	9,994	21,223	19,605
Depreciation and amortization	504	621	1,145	1,186
Impairment losses	—	—	—	59
Provision (recovery) for loan and lease losses	12,099	38,810	12,136	42,800
Total operating expenses	28,271	53,740	44,322	72,549
	(8,784)	) (30,169)	(1,193)	) (25,052)
<b>OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated subsidiaries	2,696	662	4,918	1,368
Net realized and unrealized gain (loss) on sales of investment securities available-for-sale and loans and derivatives	6,946	9,580	11,774	22,187
Net realized and unrealized gain (loss) on investment securities, trading	183	279	328	2,353
Unrealized gain (loss) and net interest income on linked transactions, net	—	—	—	235
(Loss) on reissuance/gain on extinguishment of debt	—	(171)	) —	(1,071)
(Loss) gain on sale of real estate	—	22	(3)	) —
Total other income (expense)	9,825	10,372	17,017	25,072
<b>INCOME (LOSS) BEFORE TAXES</b>	1,041	(19,797)	15,824	20
Income tax (expense) benefit	3,488	(2,918)	2,725	(4,765)
<b>NET INCOME (LOSS)</b>	4,529	(22,715)	18,549	(4,745)

The accompanying notes are an integral part of these statements  
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RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)  
(in thousands, except share and per share data)  
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net (income) loss allocated to preferred shares	(6,014 )	(6,116 )	(12,062 )	(12,207 )
Carrying value in excess of consideration paid for preferred shares	(111 )	—	1,500	—
Net (income) loss allocable to non-controlling interest, net of taxes	60	(2,180 )	150	(4,657 )
NET INCOME (LOSS) ALLOCABLE TO COMMON SHARES	\$(1,536 )	\$(31,011 )	\$8,137	\$(21,609 )
NET INCOME (LOSS) PER COMMON SHARE – BASIC	\$(0.05 )	\$(0.94 )	\$0.27	\$(0.66 )
NET INCOME (LOSS) PER COMMON SHARE – DILUTED	\$(0.05 )	\$(0.94 )	\$0.26	\$(0.66 )
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	30,410,453	2,852,316	30,505,428	2,833,426
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	30,410,453	2,852,316	30,724,272	2,833,426

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)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$4,529	\$(22,715)	\$18,549	\$(4,745)
Other comprehensive income (loss):				
Reclassification adjustment for realized (gains) losses on available-for-sale securities included in net income	(897)	(4,076)	(596)	(10,334)
Unrealized gains (losses) on available-for-sale securities, net	3,518	(1,699)	2,200	1,424
Reclassification adjustments associated with unrealized gains (losses) from interest rate hedges included in net income	(116)	36	(55)	126
Unrealized gains on derivatives, net	90	1,237	117	2,379
Foreign currency translation adjustments	—	—	—	429
Total other comprehensive income (loss)	2,595	(4,502)	1,666	(5,976)
Comprehensive income (loss) before allocation to non-controlling interests and preferred shares	7,124	(27,217)	20,215	(10,721)
Unrealized (gains) losses on available-for-sale securities allocable to non-controlling interests	—	470	—	1,277
Net (income) loss allocable to non-controlling interests	60	(2,180)	150	(4,657)
Net (income) loss allocated to preferred shares	(6,014)	(6,116)	(12,062)	(12,207)
Carrying value in excess of consideration paid for preferred shares	(111)	—	1,500	—
Comprehensive income (loss) allocable to common shares	\$1,059	\$(35,043)	\$9,803	\$(26,308)

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2016  
(in thousands, except share and per share data)  
(unaudited)

	Common Stock	Preferred Shares Series A	Preferred Shares Series B	Preferred Shares Series C	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Non-Controlling Interests	Total Equity	
	Shares	Amount	-	-	-							
Balance, December 31, 2015	31,562,724	\$32	\$1	\$6	\$5	\$1,228,346	\$(2,923)	\$—	\$(406,603)	\$818,864	\$7,896	\$826,760
Deconsolidation of variable interest entities	—	—	—	—	—	1,957	—	(16,932)	(14,975)	(8,876)	(23,851)	
Balance, January 1, 2016	31,562,724	32	1	6	5	1,228,346	(966)	—	(423,535)	803,889	(980)	802,909
Proceeds from dividend reinvestment and stock purchase plan	6,417	—	—	—	70	—	—	—	70	—	70	
Discount on 8.0% convertible senior notes	—	—	—	—	19	—	—	—	19	—	19	
Stock based compensation	304,315	—	—	—	—	—	—	—	—	—	—	
Amortization of stock based compensation	—	—	—	—	2,678	—	—	—	2,678	—	2,678	
Purchase and retirement of common shares	(709,676)	(1)	—	—	(8,158)	—	—	—	(8,159)	—	(8,159)	
Net income (loss)	—	—	—	—	—	—	18,699	—	18,699	(150)	18,549	
Preferred dividends	—	—	—	—	—	—	(12,062)	—	(12,062)	—	(12,062)	
Preferred stock redemption	—	—	—	—	(4,615)	—	1,500	—	(3,115)	—	(3,115)	
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	1,604	—	—	1,604	—	1,604	
Designated derivatives, fair value adjustment	—	—	—	—	—	62	—	—	62	—	62	
Distributions on common stock	—	—	—	—	—	—	(8,137)	(17,987)	(26,124)	—	(26,124)	
	31,163,780	\$31	\$1	\$6	\$5	\$1,218,340	\$700	\$—	\$(441,522)	\$777,561	\$(1,130)	\$776,431

Balance, June 30,  
2016

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 18,549	\$(4,745)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision for (recovery of) loan losses	12,136	42,800
Depreciation, amortization, and accretion	4,090	7,574
Amortization of stock-based compensation	2,678	1,786
Deferred income tax (benefit) expense	—	(194 )
Sale (origination) of residential mortgage loans held for sale, net	(83,829 )	15,229
Sale (purchase) of and principal payments on securities, trading, net	140	(9,541 )
Net realized and unrealized loss (gain) on investment securities, trading	(328 )	(2,353 )
Net realized and unrealized (gain) loss on sales of investment securities available-for-sale and loans	(11,774 )	(32,016)
Loss (gain) on the reissuance (extinguishment) of debt	—	1,071
Loss (gain) on sale of real estate	3	—
Settlement of derivative instruments	(4,035 )	12,405
Net impairment losses recognized in earnings	—	59
Unrealized gain (loss) and net interest income on linked transactions, net	—	(235 )
Equity in net (earnings) losses of unconsolidated subsidiaries	(4,918 )	(1,368 )
Changes in operating assets and liabilities, net of acquisitions	20,353	(6,371 )
Net cash provided by (used in) operating activities	(46,935 )	24,101
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) decrease in restricted cash	15,727	75,836
Deconsolidation of VIEs <sup>(1)</sup>	(472 )	—
Purchase of securities available-for-sale	(6,537 )	(11,320)
Principal payments on securities available-for-sale	29,827	49,819
Proceeds from sale of securities available-for-sale	—	37,221
Acquisition of legacy collateralized debt obligation assets	(7,511 )	—
Return of capital from (investment in) unconsolidated entity	9,530	5,000
Proceeds from sale of real estate held-for-sale	—	44
Purchase and origination of loans	(160,677)	(436,440)
Principal payments received on loans	241,613	209,744
Proceeds from sale of loans	8,881	93,146
Purchase of property and equipment	(28 )	(238 )
Principal payments received on loans – related parties	—	558
Settlement of derivative instruments	(50 )	—
Net cash (used in) provided by investing activities	130,303	23,370
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
	68	129

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Net proceeds from issuances of common stock and dividend reinvestment and stock purchase plan (net of offering costs of \$0 and \$58)		
Proceeds from issuance of preferred shares (net of offering costs of \$0 and \$78)	—	3,035
Repurchase of common stock	(7,914 )	(5 )
Repurchase of preferred shares	(3,359 )	—
Net proceeds (borrowings) from repurchase agreements	118,574	(56,383 )
Proceeds from borrowings:		
Securitized	—	282,127
Convertible senior notes	—	99,000
Senior secured revolving credit facility	33,000	99,500
Reissuance of debt	—	12,229
Payments on borrowings:		