Resource Capital Corp.
Form 10-Q
November 08, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 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. R 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 RNo ¨

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	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 November 3, 2011 was 77,606,716 shares.

(Back to Index)

(Back to Index)

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

(Back to Index)

(Back to Index)

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$28,897	$29,488
Restricted cash	148,515	168,192
Investment securities, trading	34,303	17,723
Investment securities available-for-sale, pledged as collateral, at fair value	104,136	57,998
Investment securities available-for-sale, at fair value	41,996	5,962
Investment securities held-to-maturity, pledged as collateral	31,214	29,036
Property available-for-sale	4,074	4,444
Investments in real estate	48,292	–
Loans, pledged as collateral and net of allowances of $28.6 million and $34.2 million	1,654,020	1,443,271
Loans held for sale	13,443	28,593
Lease receivables, pledged as collateral, net of allowances of $0 and $70,000 and net of unearned income	–	109,612
Loans receivable–related party	16,494	9,927
Investments in unconsolidated entities	6,693	6,791
Dividend reinvestment plan proceeds receivable	–	10,000
Interest receivable	6,652	6,330
Deferred tax asset	4,833	4,401
Intangible assets	21,232	–
Other assets	5,449	2,432
Total assets	$2,170,243	$1,934,200
LIABILITIES		
Borrowings	$1,549,674	$1,543,251
Unsettled loan purchases	130,054	–
Distribution payable	19,157	14,555
Accrued interest expense	1,518	1,618
Derivatives, at fair value	16,218	13,292
Deferred tax liability	10,192	9,798
Accounts payable and other liabilities	10,166	3,360
Total liabilities	1,736,979	1,585,874
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 100,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, par value $0.001: 500,000,000 shares authorized; 76,590,035 and 58,183,425 shares issues and outstanding	77	58

(including 1,428,931 and 534,957 unvested restricted shares)		
Additional paid-in capital	642,424	528,373
Accumulated other comprehensive loss	(45,041)	(33,918)
Distributions in excess of earnings	(164,196)	(146,187)
Total stockholders' equity	433,264	348,326
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,170,243	$1,934,200

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
REVENUES				
Interest income:				
Loans	$18,863	$19,597	$60,704	$57,085
Securities	3,383	3,136	9,098	8,905
Leases	–	4,614	–	6,777
Interest income – other	3,899	1,902	6,834	2,651
Total interest income	26,145	29,249	76,636	75,418
Interest expense	7,175	10,089	21,170	26,955
Net interest income	18,970	19,160	55,466	48,463
Rental income	1,592	–	1,772	–
Dividend income	926	–	2,453	–
Fee income	1,960	–	5,859	–
Total revenues	23,448	19,160	65,550	48,463
OPERATING EXPENSES				
Management fees – related party	3,136	4,405	8,622	9,845
Equity compensation – related party	316	544	1,399	1,463
Professional services	624	491	2,532	2,186
Insurance	161	184	497	576
Rental operating expense	1,057	–	1,369	–
General and administrative	1,281	721	3,220	2,232
Depreciation on operating leases	–	1,658	–	2,343
Depreciation and amortization	1,856	–	2,865	–
Income tax expense	1,289	4,068	4,269	5,305
Total expenses	9,720	12,071	24,773	23,950
	13,728	7,089	40,777	24,513
OTHER INCOME (EXPENSE)				
Net impairment losses recognized in earnings	–	(4,456)	(4,649)	(10,514)
Net realized gain on investment securities available-for-sale and loans	591	1,171	4,443	1,507
Net realized and unrealized (loss) gain on investment securities, trading	(1,861)	7,215	1,418	9,743
Provision for loan and lease losses	(1,198)	(3,095)	(7,917)	(26,363)
Gain on the extinguishment of debt	3,875	6,250	3,875	29,285
Other (expense) income	(191)	(121)	(642)	650
Total other income (expense)	1,216	6,964	(3,472)	4,308
NET INCOME	$14,944	$14,053	$37,305	$28,821
NET INCOME PER SHARE – BASIC	$0.20	$0.27	$0.55	$0.64
NET INCOME PER SHARE – DILUTED	$0.20	$0.27	$0.54	$0.64
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC	73,761,028	52,273,307	68,254,639	44,947,256
WEIGHTED AVERAGE NUMBER OF	74,283,894	52,578,884	68,613,363	45,203,521

SHARES OUTSTANDING – DILUTED				
DIVIDENDS DECLARED PER SHARE	$0.25	$0.25	$0.75	$0.75

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
NINE MONTHS ENDED SEPTEMBER 30, 2011
(in thousands, except share and per share data)
(Unaudited)

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Comprehensive Income
Balance, January 1, 2011	58,183,425	$58	$528,373	$ (33,918)	$–	$ (146,187)	$ 348,326	
Proceeds from common stock offering	6,900,000	7	47,603	–	–	–	47,610	
Proceeds from dividend reinvestment and stock purchase plan	10,269,757	11	66,102	–	–	–	66,113	
Offering costs	–	–	(1,274)	–	–	–	(1,274)	
Stock based compensation	1,240,655	1	221	–	–	–	222	
Amortization of stock based compensation	–	–	1,399	–	–	–	1,399	
Forfeitures	(3,802)	–	–	–	–	–	–	
Net income	–	–	–	–	37,305	–	37,305	$ 37,305
Securities available-for-sale, fair value adjustment, net	–	–	–	(8,349)	–	–	(8,349)	(8,349)
Designated derivatives, fair value adjustment	–	–	–	(2,774)	–	–	(2,774)	(2,774)
Distributions on common stock	–	–	–	–	(37,305)	(18,009)	(55,314)	
Comprehensive income	–	–	–	–	–	–	–	$ 26,182
Balance, September 30, 2011	76,590,035	$77	$642,424	$ (45,041)	$–	$ (164,196)	$ 433,264	

The accompanying notes are an integral part of this statement

(Back to Index)

(Back to Index)

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

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$37,305	$28,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,917	26,363
Depreciation of real estate investments	394	–
Amortization of intangible assets	2,471	–
Amortization of term facilities	430	646
Depreciation on operating leases	–	2,343
Accretion of net discounts on loans held for investment	(11,522)	(13,258)
Accretion of net discounts on securities available-for-sale	(2,471)	–
Accretion of net discounts on securities held-to-maturity	(376)	–
Amortization of discount on notes of CDOs	40	1,158
Amortization of debt issuance costs on notes of CDOs	2,329	3,298
Amortization of stock-based compensation	1,399	1,463
Amortization of terminated derivative instruments	151	329
Non-cash incentive compensation to manager	430	1,231
Purchase of investment securities, trading	(33,646)	(13,548)
Principal payments on investment securities, trading	327	–
Proceeds from sales of investment securities, trading	18,131	11,346
Net realized and unrealized gains on investments securities, trading	(1,418)	(5,207)
Unrealized losses on non-designated derivative instruments	–	46
Net realized gains on investments	(4,443)	(6,043)
Net impairment losses recognized in earnings	4,649	10,514
Gain on the extinguishment of debt	(3,875)	(29,285)
Changes in operating assets and liabilities	2,619	5,841
Net cash provided by operating activities	20,841	26,058
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (decrease) in restricted cash	22,334	(71,663)
Purchase of securities available-for-sale	(91,294)	(19,642)
Principal payments on securities available-for-sale	9,781	1,239
Proceeds from sale of securities available-for-sale	13,747	6,111
Investment in unconsolidated entity	98	(2,973)
Equity contribution to VIE	–	(7,333)
Purchase of loans	(516,153)	(217,691)
Principal payments received on loans	346,377	202,480
Proceeds from sale of loans	127,810	83,487
Purchase of investments in real estate	(18,329)	–
Proceeds from sale of real estate	370	–
Purchase of lease receivables	–	(25,883)
Payments received on lease receivables	–	8,005

Proceeds from sale of lease receivables	–	1,232
Purchase of intangible asset	(21,213)	–
Investment in loans – related parties	(6,900)	(10,000)
Payments received on loans – related parties	333	8
Net cash used in investing activities	(133,039)	(52,623)

(Back to Index)

(Back to Index)

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

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (net of offering costs of $1,263 and $2,772)	46,347	42,510
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $11 and $0)	66,102	53,640
Proceeds from borrowings:		
Repurchase agreements	37,928	–
Revolving credit facility	6,000	–
Mortgage payable	13,600	–
Secured term facility	–	6,500
Payments on borrowings:		
Secured term facility	–	(369)
Equipment-backed securitized notes	–	(9,798)
Collateralized debt obligations	(992)	–
Repurchase of issued bonds	(6,125)	(47,065)
Payment of debt issuance costs	(541)	(502)
Distributions paid on common stock	(50,712)	(31,998)
Net cash provided by financing activities	111,607	12,918
NET DECREASE IN CASH AND CASH EQUIVALENTS	(591)	(13,647)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,488	51,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$28,897	$38,344
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Distributions on common stock declared but not paid	$19,157	$13,682
Issuance of restricted stock	$1,206	$338
Assumption of equipment-backed securitized notes	$–	$112,223
Acquisition of lease receivables	$–	$(100,305)
Settlement of secured term facility	$–	$(6,131)
Settlement of debt issuance costs	$–	$(1,012)
Contribution of lease receivables and other assets	$117,340	$–
Contribution of equipment-backed securitized notes and other liabilities	$(96,840)	$–
Conversion of equity in LEAF Funding 3 to preferred stock and warrants	$(21,000)	$–
Acquisition of real estate investments	$(33,073)	$–
Deed in lieu of foreclosure of mortgage payable	$34,550	$–
Net purchase of loans in warehouse line	$(182,789)	$–
Acquisition of loans on warehouse line	$182,789	$–
Conversion of PIK interest in securities available-for-sale	$528	$–
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$24,629	$27,985
Income taxes paid in cash	$–	$–

The accompanying notes are an integral part of these financial statements

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF QUARTERLY 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, commercial mortgage-backed securities and property available-for-sale.

RCC Commercial, Inc. ("RCC Commercial") holds bank loan investments and commercial real estate-related securities. RCC Commercial owns 100% 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.

- 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.

- 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.

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 structured notes.

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 Apidos Capital Management, a subsidiary or Resource America.

Resource TRS III, Inc. ("Resource TRS III"), a TRS directly owned by the Company, holds the Company's interests in bank loan CDOs originated by the Company. Resource TRS III owns 100% of the equity of the following VIE:

- Apidos CLO VIII, Ltd ("Apidos CLO VIII"), a Cayman Islands limited liability company, is a warehouse facility through Citibank, N.A. which was established to complete a CLO secured by a portfolio of bank loans.

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, 2010. The results of operations for the nine months ended September 30, 2011 may not necessarily be indicative of the results of operations for the full year ending December 31, 2011.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

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.

The Company has a 100% interest valued at $1.5 million in the common shares (three percent 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 at cost and records dividend income upon declaration by RCT I and RCT II. For the three and nine months ended September 30, 2011 the Company recognized $896,000 and $2.7 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $79,000 and $233,000, respectively, of amortization of deferred debt issuance costs. For the three and nine months ended September 30, 2010, the Company recognized $923,000 and $2.7 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $76,000 and $225,000, respectively, of amortization of deferred debt issuance costs. The Company will do a continuous reassessment as to whether it should be deemed to be the primary beneficiary of the trusts.

All inter-company transactions and balances have been eliminated.

Investment Securities

The Company classifies its investment portfolio as trading, available-for-sale or held-to-maturity. 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. 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 16). 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.

For securities with higher levels of market activity, the Company obtains a quote from a dealer, 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.

For investment securities available-for-sale with lower levels of market activity, the Company determines fair value based on taking a weighted average of the following three measures:

- dealer quotes, as described above;
- quotes on more actively-traded, higher-rated securities issued in a similar time period, adjusted for differences in rating and seniority; and
- the value resulting from an internal valuation model using an income approach based upon an appropriate risk-adjusted yield, time value and projected losses using default assumptions based upon an historical analysis of underlying loan performance.

(Back to Index)

(Back to Index)

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

Investment Securities – (Continued)

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 will not be recovered over its remaining life. 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 income. Where other market components are believed to be the cause of the impairment, that component of the impairment is recognized on the balance sheet as other comprehensive loss.

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

Allowance for Loan Losses

The Company maintains an allowance for loan losses. 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 the borrower. 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 is 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 of 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)
SEPTEMBER 30, 2011
(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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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.

Other than an impairment charge of $1.7 million the Company took on real estate debt converted to equity in June 2011, no impairment charges were recorded on the Company's investment in real estate or intangible assets during the three or nine months ended September 30, 2011. There were no such investments in real estate holdings in 2010.

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. Adoption will require adjusted disclosure of the Company's comprehensive income.

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. Early adoption is not permitted. The Company is currently evaluating the effect of the adoption on its consolidated financial statements.

In April 2011, the FASB issued guidance to clarify the disclosures regarding troubled-debt restructurings originally effective as of December 15, 2010. The new guidance surrounding troubled-debt restructuring will now be effective for interim and annual periods beginning after June 15, 2011. Adoption of this guidance required additional disclosures in the notes to the Company's consolidated financial statements (see note 8).

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

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

Recent Accounting Standards – (Continued)

In January 2010, the FASB issued guidance that required new disclosures and clarified some existing disclosure requirements about fair value measurements. The pronouncement requires a reporting entity: (1) to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) to present separately information about purchases, sales, issuances and settlements in the reconciliation of fair value measurements using significant unobservable inputs. In addition, it clarified the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The new guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements which became effective for the Company in fiscal 2011 and required additional disclosures. The new guidance required enhanced disclosure in the Company's footnotes.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 presentation.

NOTE 3 – 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
September 30, 2011:				
Structured notes	$24,039	$5,283	$(1,238)	$28,084
Residential mortgage-backed securities	7,105	221	(1,107)	6,219
Total	$31,144	$5,504	$(2,345)	$34,303
December 31, 2010:				
Structured notes	$7,984	$9,739	$–	$17,723
Total	$7,984	$9,739	$–	$17,723

The Company purchased 23 securities and sold 11 securities during the nine months ended September 30, 2011, for a net realized gain of $8.0 million. The Company held 23 investment securities, trading as of September 30, 2011. The Company held 11 investment securities, trading at December 31, 2010.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 4 – 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 (2)	Unrealized Gains	Unrealized Losses	Fair Value (1)
September 30, 2011:				
CMBS	$137,003	$1,228	$(28,863)	$109,368
Preferred stock and warrants	36,741	–	–	36,741
Other asset-backed	–	23	–	23
Total	$173,744	$1,251	$(28,863)	$146,132
December 31, 2010:				
CMBS	$83,223	$7,292	$(26,578)	$63,937
Other asset-backed	–	23	–	23
Total	$83,223	$7,315	$(26,578)	$63,960

(1) As of September 30, 2011 and December 31, 2010, $104.1 million and $58.0 million, respectively, of securities were pledged as collateral security under related financings.

(2) As of September 30, 2011 and December 31, 2010, other asset-backed securities are carried at fair value, $23,000 and $23,000, respectively, due to prior cost-recovery proceeds received on this bond.

On January 4, 2011, the Company’s wholly-owned subsidiary, Resource TRS, made an investment in LEAF Commercial Capital, Inc. (“LCC”), a newly-formed equipment financing subsidiary of LEAF Financial Corporation (“LEAF Financial”), a subsidiary of Resource America (see Note 14). The Company’s preferred stock and warrant investment is carried at cost. It is not practicable for the Company to estimate the fair value of its investment in the preferred stock and warrants of LCC. LCC’s assets are comprised of a large number of transactions with commercial customers in different businesses, may be secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. Any difference between the carrying value and fair value of each transaction would be affected by a potential buyer’s assessment of the transaction’s credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale of a transaction would be based on the terms of the sale, LCC’s and the buyer’s views of economic and industry conditions, LCC’s and the buyer’s tax considerations, and other factors. There were no events or changes in circumstances that would significantly affect the fair value of this investment. The preferred stock carries a coupon of 10%, of which 2% is received in cash and 8% is paid in-kind. During the nine months ended September 30, 2011, $528,000 of paid-in-kind interest was paid in the form of additional shares of Series A preferred stock.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 4 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

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

Weighted Average Life	Fair Value		Amortized Cost	Weighted Average Coupon
September 30, 2011:				
Less than one year	$31,972	(1)	$33,530	5.37%
Greater than one year and less than five years	66,913		91,219	4.45%
Greater than five years	10,506		12,254	4.14%
Total	$109,391		$137,003	4.52%
December 31, 2010:				
Less than one year	$3,264	(2)	$6,911	1.51%
Greater than one year and less than five years	29,004		46,138	3.45%
Greater than five years	31,692		30,174	5.64%
Total	$63,960		$83,223	4.08%

(1) $1.0 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 respective maturity dates until at least October 2012 as the debtors in the floating-rate structures have a contractual right to extend with options ranging from two one-year options to three one-year options. Beyond the contractual extensions, the servicer may allow further extensions of the underlying floating rate loans.

(2) All of the $3.3 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 respective maturity dates until at least November 2011 as the debtors in the floating-rate structures have a contractual right to extend with options ranging from two one-year options to three one-year options. Beyond the contractual extensions, the servicer may allow further extensions of the underlying floating rate loans.

The range of contractual maturities of the investment securities available-for-sale is from January 2012 to July 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 (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
September 30, 2011:						
CMBS	$ 84,896	$ (16,616)	$ 9,458	$ (12,247)	$ 94,354	$ (28,863)
Total temporarily	$ 84,896	$ (16,616)	$ 9,458	$ (12,247)	$ 94,354	$ (28,863)

impaired securities																		
December 31, 2010:																		
CMBS	$	10,134		$	(4,383	)	$	8,302		$	(22,195	)	$	18,436		$	(26,578	)
Total temporarily impaired securities	$	10,134		$	(4,383	)	$	8,302		$	(22,195	)	$	18,436		$	(26,578	)

The Company holds seven floating rate investment securities available-for-sale that have been in a loss position for more than 12 months as of September 30, 2011 and December 31, 2010. The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 4 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE – (Continued)

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 with respect to the security as generated by third party software;

credit ratings from the rating agencies;

underlying credit fundamentals of the collateral backing the securities; and

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.

At September 30, 2011 and December 31, 2010, the Company held $109.4 million and $63.9 million, respectively, (net of net unrealized losses of $27.6 million and $19.3 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. As of September 30, 2011 and December 31, 2010, $99.1 million and $53.7 million, respectively, of investment securities available-for-sale were valued using dealer quotes and $10.2 million and $10.3 million, respectively, were valued using a weighted average of three measures (see Note 2).

During the nine months ended September 30, 2011, the Company recognized a $4.6 million other-than-temporary impairment on one fixed rate position that supported the Company's CMBS investments bringing the fair value to $250,000. There was no other-than-temporary impairment during the three months ended September 30, 2011. During the three and nine months ended September 30, 2010, the Company recognized $4.5 million and $10.5 million of other-than-temporary impairment on one and three fixed rate positions, respectively, that supported the Company's CMBS investments, bringing the combined fair value to $470,000. The assumed default of these collateral positions in the Company's cash flow model yielded a value of less than full recovery of the Company's cost basis. The net impairment losses were recognized in earnings in the consolidated statements of operations. All of the Company's other-than-temporary impairment losses are related to credit losses.

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 September 30, 2011, the aggregate discount exceeded the aggregate premium on the Company's CMBS by approximately $13.9 million. At December 31, 2010, the aggregate discount exceeded the aggregate premium on the Company's CMBS by approximately $20.9 million.

NOTE 5 – INVESTMENT SECURITIES HELD-TO-MATURITY

The following table summarizes the Company's investment securities held-to-maturity which are carried at amortized cost (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2011:				
ABS	$31,214	$166	$(5,771)	$25,609
Total	$31,214	$166	$(5,771)	$25,609
December 31, 2010:				
ABS	$29,036	$752	$(3,847)	$25,941
Total	$29,036	$752	$(3,847)	$25,941

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 5 – INVESTMENT SECURITIES HELD-TO-MATURITY – (Continued)

The following table summarizes the estimated maturities of the Company's investment securities held-to-maturity according to their contractual lives (in thousands):

Contractual Life	Amortized Cost	Fair Value	Weighted Average Coupon
September 30, 2011:			
Greater than one year and less than five years	$5,656	$5,407	5.56%
Greater than five years and less than ten years	20,169	17,103	2.49%
Greater than ten years	5,389	3,099	3.87%
Total	$31,214	$25,609	
December 31, 2010:			
Greater than one year and less than five years	$5,000	$4,830	6.14%
Greater than five years and less than ten years	15,891	15,073	1.97%
Greater than ten years	8,145	6,038	4.11%
Total	$29,036	$25,941	

The following table shows the fair value and gross unrealized losses, aggregated by investment category and length of time, of those individual investment securities that have been in a continuous unrealized loss position (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
September 30, 2011:						
ABS	$ 14,228	$ (892)	$ 8,303	$ (4,879)	$ 22,531	$ (5,771)
Total temporarily impaired securities	$ 14,228	$ (892)	$ 8,303	$ (4,879)	$ 22,531	$ (5,771)
December 31, 2010:						
ABS	$ 1,038	$ (1)	$ 11,923	$ (3,846)	$ 12,961	$ (3,847)
Total temporarily impaired securities	$ 1,038	$ (1)	$ 11,923	$ (3,846)	$ 12,961	$ (3,847)

The Company has 14 and 12 investment securities held-to-maturity that have been in a loss position for more than 12 months as of September 30, 2011 and December 31, 2010, 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 Company does not believe that any of its investment securities classified as held-to-maturity were other-than-temporarily impaired as of September 30, 2011.

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 severity of the impairment;

the expected loss of the security as generated by third party software;

original and current credit ratings from the rating agencies;

underlying credit fundamentals of the collateral backing the securities; and

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

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 6 – INVESTMENTS IN REAL ESTATE

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

	As of September 30, 2011	
	Book Value	Number of Properties
Multi-family property	$38,534	2
Office real estate property	10,149	1
Subtotal	48,683	3
Less: Accumulated depreciation	(391)	
Investments in real estate	$48,292	

The Company had no investments in real estate as of December 31, 2010.

Acquisitions

During the nine months ended September 30, 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 received the deed to a property by agreement with the third-party borrower in lieu of foreclosure on a loan in the amount of $22.4 million that the Company had originated. 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 received the deed to a property from the borrower in lieu of foreclosure on a loan in the amount of $12.1 million that the Company had originated. 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 property was 95% occupied at acquisition.

A summary of the aggregate estimated fair value of the assets and liabilities acquired on the respective dates of acquisition 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 has not yet completed the process of estimating the fair value of assets acquired and liabilities assumed. Accordingly, the Company's preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as the Company completes the process. In accordance with FASB ASC Topic 805, changes, if any, to the preliminary estimates and allocation will be reported in the Company's financial statements retrospectively.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 6 – INVESTMENTS IN REAL ESTATE – (Continued)

Acquisitions – (Continued)

The following unaudited pro forma information, after including the acquisition of real properties, is presented below as if the acquisitions occurred on January 1, 2010. The pro forma results are not necessarily indicative of the results which actually would have occurred if the acquisitions had occurred on the first day of the periods presented, nor is it indicative of the Company's future results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Description	2011	2010	2011	2010
Total revenue, as reported	$23,450	$19,168	$65,550	$48,471
Pro forma revenue	$23,727	$19,956	$67,500	$50,900
Net income, reported	$14,945	$14,045	$37,305	$28,822
Pro forma net income	$14,681	$14,034	$37,536	$29,107
Earnings per share – basic, reported	$0.20	$0.27	$0.55	$0.64
Earnings per share per – diluted, reported	$0.20	$0.27	$0.54	$0.64
Pro forma earnings per share - basic	$0.20	$0.27	$0.55	$0.65
Pro forma earnings per share - diluted	$0.20	$0.27	$0.55	$0.64

These amounts have been calculated after adjusting the results of the acquired properties to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to the Company's investments in real estate had been applied from January 1, 2010.

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)
September 30, 2011:			
Bank loans (3)	$1,101,805	$ (28,796)	$1,073,009
Commercial real estate loans:			
Whole loans	516,893	(1,142)	515,751
B notes(3)	31,018	(1,591)	29,427
Mezzanine loans	77,861	29	77,890
Total commercial real estate loans	625,772	(2,704)	623,068
Subtotal loans before allowances	1,727,577	(31,500)	1,696,077
Allowance for loan loss	(28,614)	–	(28,614)
Total	$1,698,963	$ (31,500)	$1,667,463
December 31, 2010:			
Bank loans (3)	$887,667	$ (27,204)	$860,463
Commercial real estate loans:			

Whole loans	441,706	(334)	441,372
B notes	57,613	(162)	57,451
Mezzanine loans (3)	146,668	143	146,811
Total commercial real estate loans	645,987	(353)	645,634
Subtotal loans before allowances	1,533,654	(27,557)	1,506,097
Allowance for loan loss	(34,233)	–	(34,233)
Total	$1,499,421	$ (27,557)	$1,471,864

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2011
(Unaudited)

NOTE 7– LOANS HELD FOR INVESTMENT – (Continued)