

Resource Capital Corp.  
Form 10-Q  
November 14, 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 September 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 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   
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 November 10, 2016 was 31,062,805 shares.



[\(Back to Index\)](#)

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

	PAGE
PART I	
Item 1: <a href="#">Financial Statements</a>	
<a href="#">Consolidated Balance Sheets - September 30, 2016 (unaudited) and December 31, 2015</a>	<a href="#">3</a>
<a href="#">Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2016 and 2015</a>	<a href="#">5</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss) (unaudited) Three and Nine Months Ended September 30, 2016 and 2015</a>	<a href="#">7</a>
<a href="#">Consolidated Statement of Changes in Equity (unaudited) Nine Months Ended September 30, 2016</a>	<a href="#">8</a>
<a href="#">Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2016 and 2015</a>	<a href="#">9</a>
<a href="#">Notes to Consolidated Financial Statements - September 30, 2016 (unaudited)</a>	<a href="#">10</a>
Item 2: <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">69</a>
Item 3: <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">116</a>
Item 4: <a href="#">Controls and Procedures</a>	<a href="#">117</a>
PART II	
Item 1: <a href="#">Legal Proceedings</a>	<a href="#">118</a>
Item 2: <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">118</a>
Item 6: <a href="#">Exhibits</a>	<a href="#">118</a>
<a href="#">SIGNATURES</a>	<a href="#">123</a>

[\(Back to Index\)](#)

---

[\(Back to Index\)](#)

## PART I

## ITEM 1. FINANCIAL STATEMENTS

## RESOURCE CAPITAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
	(unaudited)	
<b>ASSETS <sup>(1)</sup></b>		
Cash and cash equivalents	\$ 114,552	\$ 78,756
Restricted cash	5,701	40,635
Investment securities, trading	3,747	25,550
Investment securities available-for-sale, pledged as collateral, at fair value	82,114	162,306
Investment securities available-for-sale, at fair value	154,591	45,782
Loans held for sale (\$197.6 million and \$94.5 million at fair value)	197,615	95,946
Loans, pledged as collateral and net of allowances of \$9.4 million and \$47.1 million	1,406,581	2,160,751
Investments in unconsolidated entities	88,149	50,030
Derivatives, at fair value	4,052	3,446
Interest receivable	6,623	14,009
Deferred tax asset, net	5,565	12,646
Principal paydown receivable	44,600	17,941
Direct financing leases, net of allowances of \$0.5 million	571	931
Intangible assets	25,886	26,228
Prepaid expenses	4,615	3,180
Other assets	12,516	22,295
Total assets	\$ 2,157,478	\$ 2,760,432
<b>LIABILITIES <sup>(2)</sup></b>		
Borrowings	\$ 1,401,842	\$ 1,895,288
Distribution payable	17,022	17,351
Accrued interest expense	4,913	5,604
Derivatives, at fair value	2,158	3,941
Accrued tax liability	51	549
Accounts payable and other liabilities	12,933	10,939
Total liabilities	1,438,919	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 5,544,579 and 5,740,479 shares issued and outstanding	6	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 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value \$0.001: 125,000,000 shares authorized; 31,071,737 and 31,562,724 shares issued and outstanding (including 496,756 and 691,369 unvested restricted shares)	31	32
Additional paid-in capital	1,218,907	1,228,346
Accumulated other comprehensive income (loss)	6,909	(2,923 )

Edgar Filing: Resource Capital Corp. - Form 10-Q

Distributions in excess of earnings	(506,107	) (406,603	)
Total stockholders' equity	719,752	818,864	
Non-controlling interests	(1,193	) 7,896	
Total equity	718,559	826,760	
TOTAL LIABILITIES AND EQUITY	\$ 2,157,478	\$ 2,760,432	

[\(Back to Index\)](#)

3

---

[\(Back to Index\)](#)

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

	September 30, 2016	December 31, 2015
	(unaudited)	
(1) Assets of consolidated Variable Interest Entities ("VIEs") included in the total assets above:		
Cash and cash equivalents	\$ —	\$ 95
Restricted cash	5,473	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 \$827,000 and \$42.8 million	801,742	1,416,441
Interest receivable	3,389	6,592
Prepaid expenses	21	238
Principal paydown receivable	44,600	17,800
Other assets	253	833
Total assets of consolidated VIEs	\$ 855,478	\$ 1,548,672
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Borrowings	\$ 528,971	\$ 1,032,581
Accrued interest expense	500	923
Derivatives, at fair value	—	3,346
Accounts payable and other liabilities	147	(117 )
Total liabilities of consolidated VIEs	\$ 529,618	\$ 1,036,733

The accompanying notes are an integral part of these statements

[\(Back to Index\)](#)

[\(Back to Index\)](#)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2016	
	2015	2016	2015	2016
<b>REVENUES</b>				
Interest income:				
Loans	\$26,003	\$32,497	\$89,227	\$92,623
Securities	4,602	4,866	13,691	14,418
Leases	(22 )	(8 )	(37 )	250
Interest income - other	769	968	4,317	2,919
Total interest income	31,352	38,323	107,198	110,210
Interest expense	14,120	16,330	46,581	45,334
Net interest income	17,232	21,993	60,617	64,876
Gain (loss) on sale of residential mortgage loans	6,026	3,154	15,607	11,594
Dividend income	(188 )	17	(153 )	50
Fee income	2,023	781	1,425	4,767
Total revenues	25,093	25,945	77,496	81,287
<b>OPERATING EXPENSES</b>				
Management fees - related party	3,053	3,252	10,189	10,312
Equity compensation - related party	1,766	(225 )	4,444	1,561
Rental operating expense	—	—	—	6
Lease operating	1	(33 )	5	14
General and administrative	12,341	10,223	33,353	29,641
Depreciation and amortization	505	628	1,650	1,814
Impairment losses	25,297	—	25,297	59
Provision (recovery) for loan and lease losses	7,683	1,034	19,819	43,834
Total operating expenses	50,646	14,879	94,757	87,241
	(25,553 )	11,066	(17,261 )	(5,954 )
<b>OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated subsidiaries	1,032	334	5,950	1,702
Net realized and unrealized gain (loss) on sales of investment securities available-for-sale and loans and derivatives	(10,106 )	2,457	(7,817 )	16,612
Net realized and unrealized gain (loss) on investment securities, trading	(242 )	(580 )	86	1,773
Unrealized gain (loss) and net interest income on linked transactions, net	—	—	—	235
(Loss) on reissuance/gain on extinguishment of debt	—	(332 )	—	(1,403 )
(Loss) gain on sale of real estate	31	(19 )	28	(19 )
Other income (expense)	1,500	—	1,500	—
Total other income (expense)	(7,785 )	1,860	(253 )	18,900
<b>INCOME (LOSS) BEFORE TAXES</b>				
Income tax (expense) benefit	(12,283 )	1,796	(9,558 )	(2,969 )
<b>NET INCOME (LOSS)</b>	<b>(45,621 )</b>	<b>14,722</b>	<b>(27,072 )</b>	<b>9,977</b>

The accompanying notes are an integral part of these statements

[\(Back to Index\)](#)

5

---



[\(Back to Index\)](#)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)  
(in thousands, except share and per share data)  
(unaudited)

	For the Three Months		For the Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net (income) loss allocated to preferred shares	(6,015 )	(6,115 )	(18,077 )	(18,322 )
Carrying value in excess of consideration paid for preferred shares	—	—	1,500	—
Net (income) loss allocable to non-controlling interest, net of taxes	63	(1,829 )	213	(6,486 )
NET INCOME (LOSS) ALLOCABLE TO COMMON SHARES	\$(51,573)	\$ 6,778	\$(43,436)	\$(14,831 )
NET INCOME (LOSS) PER COMMON SHARE – BASIC	\$(1.69 )	\$ 0.21	\$(1.42 )	\$(0.45 )
NET INCOME (LOSS) PER COMMON SHARE – DILUTED	\$(1.69 )	\$ 0.21	\$(1.42 )	\$(0.45 )
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	30,528,368		32,515,226	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	30,528,368		32,951,217	

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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$(45,621)	\$14,722	\$(27,072)	\$9,977
Other comprehensive income (loss):				
Reclassification adjustment for realized (gains) losses on available-for-sale securities included in net income	—	(1,805 )	(596 )	(12,139 )
Unrealized gains (losses) on available-for-sale securities, net	6,182	(1,769 )	8,382	(345 )
Reclassification adjustments associated with unrealized (gains) losses from interest rate hedges included in net income	26	412	(29 )	538
Unrealized gains on derivatives, net	1	1,080	118	3,424
Foreign currency translation adjustments	—	(86 )	—	343
Total other comprehensive income (loss)	6,209	(2,168 )	7,875	(8,179 )
Comprehensive income (loss) before allocation to non-controlling interests and preferred shares	(39,412 )	12,554	(19,197 )	1,798
Unrealized (gains) losses on available-for-sale securities allocable to non-controlling interests	—	1,233	—	2,510
Net (income) loss allocable to non-controlling interests	63	(1,829 )	213	(6,486 )
Net (income) loss allocated to preferred shares	(6,015 )	(6,115 )	(18,077 )	(18,322 )
Carrying value in excess of consideration paid for preferred shares	—	—	1,500	—
Comprehensive income (loss) allocable to common shares	\$(45,364)	\$5,843	\$(35,561)	\$(20,500)

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 EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 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	9,423	—	—	—	—	110	—	—	110	—	110	
Discount on 8.0% convertible senior notes	—	—	—	—	—	19	—	—	19	—	19	
Stock based compensation	307,070	—	—	—	—	—	—	—	—	—	—	
Amortization of stock based compensation	—	—	—	—	—	4,444	—	—	4,444	—	4,444	
Purchase and retirement of common shares	(807,218)	(1)	—	—	—	(9,397)	—	—	(9,398)	—	(9,398)	
Forfeiture of unvested stock	(262)	—	—	—	—	—	—	—	—	—	—	
Net income (loss)	—	—	—	—	—	—	(26,859)	(26,859)	(26,859)	(213)	(27,072)	
Preferred dividends	—	—	—	—	—	—	(18,077)	(18,077)	(18,077)	—	(18,077)	
Preferred stock redemption	—	—	—	—	—	(4,615)	—	1,500	(3,115)	—	(3,115)	
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	—	7,786	—	7,786	—	7,786	
Designated derivatives, fair value adjustment	—	—	—	—	—	—	89	—	89	—	89	
	—	—	—	—	—	—	—	43,486	(39,136)	—	(39,136)	

Edgar Filing: Resource Capital Corp. - Form 10-Q

Distributions on  
common stock

Balance,

September 30, 2016      31,071,737    \$31    \$1    \$6    \$5    \$1,218,907    \$6,909    \$—\$(506,107)    \$719,752    \$(1,193)    \$718,559

The accompanying notes are an integral part of these statements

[\(Back to Index\)](#)

8

---

[\(Back to Index\)](#)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(27,072)	\$ 9,977
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision (recovery) for loan and lease losses	19,819	43,834
Depreciation, amortization, and accretion	4,471	14,109
Amortization of stock-based compensation	4,444	1,561
Provision (benefit) for deferred taxes	16,335	—
Sale (origination) of residential mortgage loans held for sale, net	(96,556 )	(403 )
Capitalization of residential mortgage servicing rights	(13,815 )	(12,520 )
Sale (purchase) of and principal payments on securities, trading, net	229	(3,120 )
Net realized and unrealized loss (gain) on investment securities, trading	(86 )	(1,773 )
Net realized and unrealized (gain) loss on sales of investment securities available-for-sale and loans	7,817	(16,612)
Loss (gain) on the reissuance (extinguishment) of debt	—	1,403
Loss (gain) on sale of real estate	(28 )	19
Settlement of derivative instruments	(6,982 )	3,870
Net impairment losses recognized in earnings	25,297	59
Unrealized gain (loss) and net interest income on linked transactions, net	—	(235 )
Equity in net (earnings) losses of unconsolidated subsidiaries	(5,950 )	(1,702 )
Changes in operating assets and liabilities, net of acquisitions	772	(4,317 )
Net cash provided by (used in) operating activities	(71,305 )	34,150
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) decrease in restricted cash	16,816	96,887
Deconsolidation of VIEs <sup>(1)</sup>	(472 )	—
Purchase of securities available-for-sale	(6,656 )	(28,375)
Principal payments on securities available-for-sale	36,855	59,819
Proceeds from sale of securities available-for-sale	—	60,752
Acquisition of collateralized debt obligation assets	(7,511 )	—
Proceeds from sale of Northport TRS, LLC	104,187	—
Return of capital from (investment in) unconsolidated entity	(490 )	5,625
Proceeds from sale of real estate held-for-sale	—	47
Purchase and origination of loans	(257,823 )	(629,832)
Principal payments received on loans	362,036	294,901
Proceeds from sale of loans	9,316	108,446
Purchase of property and equipment	(28 )	(10 )
Principal payments received on loans – related parties	—	558
Settlement of derivative instruments	(147 )	8,028