

Resource Capital Corp.
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 1-32733

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

Maryland
(State or other jurisdiction of
incorporation or organization)

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

712 5th Avenue, 10th 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 " No "

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

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

The number of outstanding shares of the registrant’s common stock on August 3, 2010 was 52,334,757 shares.

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

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

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

| | PAGE |
|-------------------|---|
| PART I | FINANCIAL INFORMATION |
| Item 1. | Financial Statements |
| | <u>Consolidated Balance Sheets – June 30, 2010 (unaudited) and December 31, 2009</u> |
| | 3 |
| | <u>Consolidated Statements of Operations (unaudited) Three and Six Months Ended June 30, 2010 and 2009</u> |
| | 4 |
| | <u>Consolidated Statement of Changes in Stockholders' Equity (unaudited) Six Months Ended June 30, 2010</u> |
| | 5 |
| | <u>Consolidated Statements of Cash Flows (unaudited) Six Months Ended June 30, 2010 and 2009</u> |
| | 6 |
| | <u>Notes to Consolidated Financial Statements – June 30, 2010 (unaudited)</u> |
| | 8 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| | 31 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> |
| | 49 |
| Item 4. | <u>Controls and Procedures</u> |
| | 50 |
| PART II | OTHER INFORMATION |
| Item 6. | <u>Exhibits</u> |
| | 51 |
| <u>SIGNATURES</u> | 52 |

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | June 30, 2010 (Unaudited) | December 31, 2009 |
|--|---------------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 38,505 | \$ 51,991 |
| Restricted cash | 108,613 | 85,125 |
| Investment securities trading | 4,985 | – |
| Investment securities available-for-sale, pledged as collateral, at fair value | 48,424 | 39,304 |
| Investment securities available-for-sale, at fair value | 7,105 | 5,238 |
| Investment securities held-to-maturity, pledged as collateral | 31,446 | 31,401 |
| Loans, pledged as collateral and net of allowances of \$38.9 million and \$47.1 million | 1,511,695 | 1,558,687 |
| Loans held for sale | 37,763 | 8,050 |
| Lease receivables, net of allowances of \$50,000 and \$1.1 million and net of unearned income | 118,528 | 927 |
| Loans receivable – related party | 9,999 | – |
| Investments in unconsolidated entities | 5,111 | 3,605 |
| Interest receivable | 5,587 | 5,754 |
| Other assets | 6,610 | 3,878 |
| Total assets | \$ 1,934,371 | \$ 1,793,960 |
| LIABILITIES | | |
| Borrowings | \$ 1,592,397 | \$ 1,536,500 |
| Distribution payable | 12,775 | 9,170 |
| Accrued interest expense | 1,746 | 1,516 |
| Derivatives, at fair value | 15,643 | 12,767 |
| Accounts payable and other liabilities | 9,997 | 5,177 |
| Total liabilities | 1,632,558 | 1,565,130 |
| 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; 50,968,334 and 36,545,737 shares issued and outstanding (including 559,459 and 437,319 unvested restricted shares) | 51 | 36 |
| Additional paid-in capital | 481,897 | 405,517 |
| Accumulated other comprehensive loss | (57,506) | (62,154) |
| Distributions in excess of earnings | (176,065) | (114,569) |
| Retained earnings | 53,436 | – |
| Total stockholders' equity | 301,813 | 228,830 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,934,371 | \$ 1,793,960 |

The accompanying notes are an integral part of these consolidated financial 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)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------------------|------------------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| REVENUES | | | | |
| Net interest income: | | | | |
| Loans | \$ 19,103 | \$ 21,507 | \$ 37,488 | \$ 44,128 |
| Securities | 2,895 | 1,345 | 5,769 | 2,766 |
| Leases | 1,928 | 2,093 | 2,163 | 4,326 |
| Interest income – other | 534 | 329 | 749 | 676 |
| Total interest income | 24,460 | 25,274 | 46,169 | 51,896 |
| Interest expense | 8,929 | 12,748 | 16,866 | 26,625 |
| Net interest income | 15,531 | 12,526 | 29,303 | 25,271 |
| OPERATING EXPENSES | | | | |
| Management fees – related party | 4,288 | 925 | 5,440 | 1,926 |
| Equity compensation – related party | 199 | 265 | 923 | 353 |
| Professional services | 876 | 1,089 | 1,695 | 2,053 |
| Insurance | 180 | 217 | 392 | 389 |
| Depreciation on operating leases | 685 | – | 685 | – |
| General and administrative | 862 | 462 | 1,507 | 867 |
| Income tax expense (benefit) | 1,132 | 23 | 1,237 | (22) |
| Total expenses | 8,222 | 2,981 | 11,879 | 5,566 |
| NET OPERATING INCOME | 7,309 | 9,545 | 17,424 | 19,705 |
| OTHER REVENUE (EXPENSE) | | | | |
| Impairment losses on investment securities | (8,896) | (2,261) | (7,584) | (16,925) |
| Recognized in other comprehensive loss | (2,838) | (2,216) | (1,526) | (11,260) |
| Net impairment losses recognized in earnings | (6,058) | (45) | (6,058) | (5,665) |
| Net realized gains on loans and investments | 2,718 | 465 | 2,864 | 701 |
| Provision for loan and lease losses | (7,897) | (22,012) | (23,268) | (38,962) |
| Gain on the extinguishment of debt | 16,407 | 6,900 | 23,035 | 6,900 |
| Other income | 883 | 20 | 771 | 42 |
| Total other revenue (expense) | 6,053 | (14,672) | (2,656) | (36,984) |
| NET INCOME (LOSS) | \$ 13,362 | \$ (5,127) | \$ 14,768 | \$ (17,279) |
| NET INCOME (LOSS) PER SHARE – BASIC | \$ 0.30 | \$ (0.21) | \$ 0.36 | \$ (0.71) |
| NET INCOME (LOSS) PER SHARE – DILUTED | \$ 0.30 | \$ (0.21) | \$ 0.36 | \$ (0.71) |
| WEIGHTED AVERAGE NUMBER OF | 44,424,281 | 24,369,581 | 41,223,517 | 24,427,452 |

SHARES OUTSTANDING – BASIC

WEIGHTED AVERAGE NUMBER OF
SHARES OUTSTANDING – DILUTED

| | | | | |
|------------------------------|------------|------------|------------|------------|
| | 44,724,087 | 24,369,581 | 41,555,127 | 24,427,452 |
| DIVIDENDS DECLARED PER SHARE | \$0.25 | \$0.30 | \$0.50 | \$0.60 |

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
SIX MONTHS ENDED JUNE 30, 2010
(in thousands, except share data)
(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Accumulated | | Retained Earnings | Distributions in Excess of Earnings | Total Stockholder Equity | Comprehensive Income |
|---|--------------|--------|----------------------------------|--------------------------------|----------|----------------------|--|--------------------------------|-------------------------|
| | Shares | Amount | | Other Comprehensive Loss | | | | | |
| Balance, January 1, 2010 | 36,545,737 | \$36 | \$405,517 | \$ (62,154) | \$- | \$ (114,569) | \$ 228,830 | | |
| Proceeds from dividend reinvestment and stock purchase plan | 5,386,043 | 5 | 32,585 | - | - | - | 32,590 | | |
| Proceeds from common stock offerings | 8,625,000 | 9 | 45,273 | - | - | - | 45,282 | | |
| Offering costs | - | - | (2,772) | - | - | - | (2,772) | | |
| Stock based compensation | 411,554 | 1 | 375 | - | - | - | 376 | | |
| Amortization of stock based compensation | - | - | 919 | - | - | - | 919 | | |
| Net income | - | - | - | - | 14,768 | - | 14,768 | \$ 14,768 | |
| Securities available-for-sale, fair value adjustment, net | - | - | - | 7,208 | - | - | 7,208 | 7,208 | |
| Designated derivatives, fair value adjustment | - | - | - | (2,560) | - | - | (2,560) | (2,560) | |
| Distributions on common stock | - | - | - | - | (14,768) | (8,060) | (22,828) | | |
| Comprehensive income | - | - | - | - | - | - | - | \$ 19,416 | |
| Balance, June 30, 2010 | 50,968,334 | \$51 | \$481,897 | \$ (57,506) | \$- | \$ (122,629) | \$ 301,813 | | |

The accompanying notes are an integral part of these financial statements

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

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

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$14,768 | \$(17,279) |
| Adjustments to reconcile net income (loss) net cash provided by operating activities: | | |
| Provision for loan and lease losses | 23,268 | 38,962 |
| Depreciation and amortization of term facilities | 410 | 1,023 |
| Depreciation on operating leases | 685 | – |
| Accretion of net discount on investments | (8,454) | (2,436) |
| Amortization of discount on notes of CDOs | 306 | 101 |
| Amortization of debt issuance costs on notes of CDOs | 2,300 | 1,767 |
| Amortization of stock based compensation | 923 | 353 |
| Amortization of terminated derivative instruments | 272 | 238 |
| Non-cash incentive compensation to the Manager | 743 | (1) |
| Unrealized losses on non-designated derivative instruments | 44 | 37 |
| Net realized gains on investments | (2,864) | (701) |
| Net impairment losses recognized in earnings | 6,058 | 5,665 |
| Gain on the extinguishment of debt | (23,035) | (6,900) |
| Changes in operating assets and liabilities | 3,001 | 573 |
| Net cash provided by operating activities | 18,425 | 21,402 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Increase in restricted cash | (20,128) | – |
| Purchase of securities available-for-sale | (10,366) | – |
| Principal payments on securities available-for-sale | 988 | – |
| Proceeds from sale of securities available-for-sale | 1,759 | – |
| Purchase of securities trading | (9,490) | – |
| Proceeds from sale of securities trading | 7,034 | – |
| Investment in unconsolidated entity | (1,506) | – |
| Equity contribution to VIE | (7,333) | – |
| Purchase of loans | (161,998) | (92,098) |
| Principal payments received on loans | 134,627 | 51,520 |
| Proceeds from sales of loans | 35,662 | 52,261 |
| Purchase of lease receivables | (21,245) | – |
| Payments received on lease receivables | 2,435 | 8,639 |
| Proceeds from sale of lease receivables | 656 | 2,125 |
| Investment in loans – related parties | (10,000) | – |
| Payments received on loans – related parties | 1 | – |
| Net cash (used in) provided by investing activities | (58,904) | 22,447 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock (net of offering costs of \$2,772 and \$0) | 42,510 | 174 |

Net proceeds of div