Resource Capital Corp.
Form 10-Q
August 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 June 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 August 3, 2011 was 74,436,286 shares.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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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, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$46,898	$29,488
Restricted cash	188,897	168,192
Investment securities, trading	32,345	17,723
Investment securities available-for-sale, pledged as collateral, at fair value	82,242	57,998
Investment securities available-for-sale, at fair value	45,866	5,962
Investment securities held-to-maturity, pledged as collateral	29,616	29,036
Property available-for-sale	4,444	4,444
Investments in real estate	31,599	–
Loans, pledged as collateral and net of allowances of $29.7 million and $34.2 million	1,455,445	1,443,271
Loans held for sale	1,650	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	9,663	9,927
Investments in unconsolidated entities	6,437	6,791
Dividend reinvestment plan proceeds receivable	–	10,000
Interest receivable	5,107	6,330
Deferred tax asset	4,401	4,401
Intangible assets	21,678	–
Other assets	6,145	2,432
Total assets	$1,972,433	$1,934,200
LIABILITIES		
Borrowings	$1,473,202	$1,543,251
Distribution payable	18,567	14,555
Accrued interest expense	1,382	1,618
Derivatives, at fair value	16,535	13,292
Deferred tax liability	9,798	9,798
Accounts payable and other liabilities	19,569	3,360
Total liabilities	1,539,053	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; 74,230,500 and 58,183,425 shares issues and outstanding (including 1,192,388 and 534,957 unvested restricted shares)	74	58

Additional paid-in capital	630,420	528,373
Accumulated other comprehensive loss	(37,131)	(33,918)
Distributions in excess of earnings	(159,983)	(146,187)
Total stockholders' equity	433,380	348,326
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,972,433	$1,934,200

The accompanying notes are an integral part of these statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES				
Interest income:				
Loans	$20,591	$19,389	$41,841	$37,938
Securities	2,955	2,895	5,715	5,769
Leases	–	1,928	–	2,163
Interest income – other	1,716	248	2,935	299
Total interest income	25,262	24,460	50,491	46,169
Interest expense	7,062	8,929	13,995	16,866
Net interest income	18,200	15,531	36,496	29,303
Rental income	157	–	180	–
Dividend income	866	–	1,527	–
Fee income	2,253	–	3,899	–
Total revenues	21,476	15,531	42,102	29,303
OPERATING EXPENSES				
Management fees – related party	3,148	4,288	5,486	5,440
Equity compensation – related party	623	197	1,083	919
Professional services	989	876	1,908	1,695
Insurance	159	180	336	392
Rental operating expense	176	–	312	–
General and administrative	1,130	864	1,939	1,511
Depreciation on operating leases	–	685	–	685
Depreciation and amortization	756	–	1,009	–
Income tax expense	1,171	1,132	2,980	1,237
Total expenses	8,152	8,222	15,053	11,879
	13,324	7,309	27,049	17,424
OTHER (EXPENSE) INCOME				
Net impairment losses recognized in earnings	(4,649)	(6,058)	(4,649)	(6,058)
Net realized gain on investment securities available-for-sale and loans	3,696	190	3,852	336
Net realized and unrealized gain on investment securities, trading	1,473	2,528	3,279	2,528
Provision for loan and lease losses	(4,113)	(7,897)	(6,719)	(23,268)
Gain on the extinguishment of debt	–	16,407	–	23,035
Other (expense) income	(512)	883	(451)	771
Total other (expense) income	(4,105)	6,053	(4,688)	(2,656)
NET INCOME	$9,219	$13,362	$22,361	$14,768
NET INCOME PER SHARE – BASIC	$0.13	$0.30	$0.34	$0.36
NET INCOME PER SHARE – DILUTED	$0.13	$0.30	$0.34	$0.36
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC	70,704,579	44,424,281	65,455,811	41,233,517

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED	71,008,075	44,724,087	65,732,464	41,555,127
DIVIDENDS DECLARED PER SHARE	$0.25	$0.25	$0.50	$0.50

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 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	8,176,573	8	54,556	–	–	–	54,564	
Offering costs	–	–	(1,228)	–	–	–	(1,228)	
Stock based compensation	970,847	1	33	–	–	–	34	
Amortization of stock based compensation	–	–	1,083	–	–	–	1,083	
Forfeitures	(345)	–	–	–	–	–	–	
Net income	–	–	–	–	22,361	–	22,361	$ 22,361
Securities available-for-sale, fair value adjustment, net	–	–	–	(82)	–	–	(82)	(82)
Designated derivatives, fair value adjustment	–	–	–	(3,131)	–	–	(3,131)	(3,131)
Distributions on common stock	–	–	–	–	(22,361)	(13,796)	(36,157)	
Comprehensive income	–	–	–	–	–	–	–	$ 19,148
Balance, June 30, 2011	74,230,500	$74	$630,420	$ (37,131)	$–	$(159,983)	$ 433,380	

The accompanying notes are an integral part of this statement

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$22,361	$14,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	6,719	23,268
Depreciation and amortization of term facilities and real estate investments	293	410
Depreciation on operating leases	–	685
Accretion of net discounts on loans held for investment	(9,720)	(6,056)
Accretion of net discounts on securities available-for-sale	(1,739)	(2,201)
Accretion of net discounts on securities held-to-maturity	(237)	(197)
Amortization of discount on notes of CDOs	27	306
Amortization of debt issuance costs on notes of CDOs	1,521	2,300
Amortization of stock-based compensation	1,083	923
Amortization of terminated derivative instruments	111	272
Amortization of intangible assets	980	–
Non-cash incentive compensation to manager	201	743
Purchase of investment securities, trading	(28,340)	(9,490)
Principal payments on investment securities, trading	123	–
Proceeds from sales of investment securities, trading	16,868	7,034
Net realized and unrealized gains on investments securities, trading	(3,279)	(2,528)
Unrealized losses on non-designated derivative instruments	–	44
Net realized gains on investments	(3,852)	(336)
Net impairment losses recognized in earnings	4,649	6,058
Gain on the extinguishment of debt	–	(23,035)
Changes in operating assets and liabilities	14,635	3,001
Net cash provided by operating activities	22,404	15,969
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	(20,023)	(20,128)
Purchase of securities available-for-sale	(59,348)	(10,366)
Principal payments on securities available-for-sale	3,483	988
Proceeds from sale of securities available-for-sale	13,747	1,759
Investment in unconsolidated entity	354	(1,506)
Equity contribution to VIE	–	(7,333)
Purchase of loans	(387,247)	(161,998)
Principal payments received on loans	277,672	134,627
Proceeds from sale of loans	95,370	35,662
Purchase of lease receivables	–	(21,245)
Payments received on lease receivables	–	2,435
Proceeds from sale of lease receivables	–	656
Purchase of intangible asset	(21,213)	–
Investment in loans – related parties	–	(10,000)

Payments received on loans – related parties	264	1
Net cash used in investing activities	(96,941)	(56,448)

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (net of offering costs of $1,228 and $2,772)	46,382	42,510
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $0 and $0)	54,564	32,590
Proceeds from borrowings:		
Repurchase agreements	23,687	–
Secured term facility	–	6,500
Payments on borrowings:		
Secured term facility	–	(369)
Equipment-backed securitized notes	–	(1,201)
Repurchase of issued bonds	–	(33,315)
Payment of debt issuance costs	(541)	(499)
Distributions paid on common stock	(32,145)	(19,223)
Net cash provided by financing activities	91,947	26,993
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,410	(13,486)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,488	51,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$46,898	$38,505
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Distributions on common stock declared but not paid	$18,567	$12,775
Issuance of restricted stock	$966	$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	$–
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$16,727	$17,692
Income taxes paid in cash	$–	$–

The accompanying notes are an integral part of these financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 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 six months ended June 30, 2011 may not necessarily be indicative of the results of operations for the full year ending December 31, 2011.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 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 six months ended June 30, 2011 the Company recognized $891,000 and $1.8 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $78,000 and $154,000, respectively, of amortization of deferred debt issuance costs. For the three and six months ended June 30, 2010, the Company recognized $889,000 and $1.8 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $75,000 and $149,000, 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. As a result of how the dealers develop their quotes, the market illiquidity and low levels of trading in the past, the Company had categorized all of these investment securities available-for-sale in Level 3 in the fair value hierarchy. Due to the increased level of trading activity in 2010 and 2011, the Company moved some of these securities into Level 2 in the fair value hierarchy at September 30, 2010 and June 30, 2011. 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

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

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

Investment Securities – (Continued)

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.

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.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 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, deferred lease cost for the origination costs of the in-place leases and to intangibles for the value of the above or below market leases. The value allocated to the above or below market leases are amortized over the remaining lease term as an adjustment to rental income. The Company amortizes the value allocated to the in-place leases over the weighted average remaining lease term to depreciation and amortization. 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.

No impairment charges on the Company's investment in real estate or intangible assets were recorded during the three or six months ended June 30, 2011.

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 reclasses between net income and other comprehensive income. &#1