Resource Capital Corp.
Form 10-Q
August 09, 2013

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
o 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. Yes R 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 R 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	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 6, 2013 was 127,000,362 shares.

(Back to Index)

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

(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)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS [1]		
Cash and cash equivalents	$168,402	$85,278
Restricted cash	100,961	94,112
Investment securities, trading	12,266	24,843
Property available-for-sale	19,620	—
Investment securities available-for-sale, pledged as collateral, at fair value	194,649	195,200
Investment securities available-for-sale, at fair value	40,359	36,390
Linked transactions, net at fair value	25,281	6,835
Loans held for sale	20,127	48,894
Investment in real estate	55,361	75,386
Loans, pledged as collateral and net of allowances of $14.1 million and $17.7 million	1,658,611	1,793,780
Loans receivable–related party	7,962	8,324
Investments in unconsolidated entities	63,405	45,413
Interest receivable	8,090	7,763
Deferred tax asset	3,120	2,766
Principal paydown receivable	3,133	25,570
Intangible assets	12,196	13,192
Prepaid expenses	6,118	10,396
Other assets	2,819	4,109
Total assets	$2,402,480	$2,478,251
LIABILITIES [2]		
Borrowings	$1,558,910	$1,785,600
Distribution payable	26,694	21,655
Accrued interest expense	3,276	2,918
Derivatives, at fair value	12,705	14,687
Accrued tax liability	3,817	13,641
Deferred tax liability	8,376	8,376
Accounts payable and other liabilities	11,258	18,029
Total liabilities	1,625,036	1,864,906
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 8.50% Series A 100,000,000 shares authorized, 676,373 shares issued and outstanding	1	1
Preferred stock, par value $0.001: 8.25% Series B 100,000,000 shares authorized, 3,072,767 and 1,126,898 shares issued and outstanding	3	1
Common stock, par value $0.001: 500,000,000 shares authorized; 126,992,913 and 105,118,093 shares issued and outstanding (including 3,011,215 and 3,308,343 unvested restricted shares)	127	105
Additional paid-in capital	1,022,253	836,053

Accumulated other comprehensive loss	(20,106)	(27,078)
Distributions in excess of earnings	(224,834)	(195,737)
Total stockholders’ equity	777,444	613,345
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$2,402,480	$2,478,251

The accompanying notes are an integral part of these statements

(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)

	June 30, 2013 (Unaudited)	December 31, 2012
(1) Assets of consolidated Variable Interest Entities ("VIEs") included in the total assets above:		
Restricted cash	$94,285	$90,108
Investments securities available-for-sale, pledged as collateral, at fair value	136,249	135,566
Loans held for sale	20,127	14,894
Loans, pledged as collateral and net of allowances of $9.5 million and $15.2 million	1,410,187	1,678,719
Interest receivable	5,654	5,986
Prepaid expenses	220	328
Principal paydown receivable	31	25,570
Other assets	35	333
Total assets of consolidated VIEs	$1,666,788	$1,951,504
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Borrowings	$1,345,454	$1,614,882
Accrued interest expense	2,429	2,666
Derivatives, at fair value	12,237	14,078
Accounts payable and other liabilities	683	698
Total liabilities of consolidated VIEs	$1,360,803	$1,632,324

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
REVENUES				
Interest income:				
Loans	$26,184	$23,012	$53,996	$46,627
Securities	3,896	3,551	7,538	6,956
Interest income – other	635	3,157	2,501	5,986
Total interest income	30,715	29,720	64,035	59,569
Interest expense	11,134	8,869	22,299	17,252
Net interest income	19,581	20,851	41,736	42,317
Rental income	5,052	2,034	11,226	3,953
Dividend income	17	17	33	34
Equity in income (losses) of unconsolidated subsidiaries	72	(1,761)	(353)	(690)
Fee income	1,527	2,141	2,937	3,751
Net realized gain on sales of investment securities available-for-sale and loans	2,394	1,422	2,785	1,802
Net realized and unrealized (loss) gain on investment securities, trading	(1,751)	1,424	(635)	3,568
Unrealized (loss) gain and net interest income on linked transactions, net	(5,245)	134	(5,504)	253
Total revenues	21,647	26,262	52,225	54,988
OPERATING EXPENSES				
Management fees – related party	2,915	4,548	5,893	7,991
Equity compensation – related party	2,155	1,140	5,746	2,008
Professional services	903	617	2,349	1,717
Insurance	212	159	374	317
Rental operating expense	3,624	1,309	7,561	2,629
General and administrative	1,267	1,470	3,140	2,533
Depreciation and amortization	999	1,364	2,137	2,725
Income tax expense	1,737	384	3,499	2,999
Net impairment losses recognized in earnings	535	32	556	171
(Benefit) provision for loan losses	(1,242)	4,253	(200)	6,431
Total operating expenses	13,105	15,276	31,055	29,521
	8,542	10,986	21,170	25,467
OTHER REVENUE (EXPENSE)				
Gain on the extinguishment of debt	—	5,464	—	5,464
Total other revenue (expense)	—	5,464	—	5,464
NET INCOME	8,542	16,450	21,170	30,931
Net income allocated to preferred shares	(1,800)	(25)	(3,111)	(25)
Net income from non-controlling interests	(209)	—	—	—
NET INCOME ALLOCABLE TO COMMON SHARES	$6,533	$16,425	$18,059	$30,906
NET INCOME PER COMMON SHARE – BASIC	$0.05	$0.20	$0.16	$0.38

NET INCOME PER COMMON SHARE – DILUTED	$0.05	$0.20	$0.16	$0.37
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	120,738,176	83,466,810	112,508,254	82,334,303
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	122,283,503	84,188,216	113,832,183	83,040,604

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$8,542	$16,450	$21,170	$30,931
Other comprehensive income:				
Reclassification adjustment for (gains) losses included in net income	(4,498)	922	(5,125)	934
Unrealized gains (losses) on available-for-sale securities, net	4,699	(2,203)	9,922	8,396
Reclassification adjustments associated with unrealized losses (gains) from interest rate hedges included in net income	138	55	193	112
Unrealized gains (losses) on derivatives, net	1,330	(266)	1,982	(360)
Total other comprehensive income	1,669	(1,492)	6,972	9,082
Comprehensive income allocable to common shares	$10,211	$14,958	$28,142	$40,013

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
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(in thousands, except share and per share data)
(Unaudited)

	Common Stock								
	Shares	Amount	Preferred Shares - Series A	Preferred Shares - Series B	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
Balance, December 31, 2012	105,118,093	$ 105	$ 1	$ 1	$ 836,053	$ (27,078)	$ —	$ (195,737)	$ 613,345
Proceeds from dividend reinvestment and stock purchase plan	2,926,167	3	—	—	18,164	—	—	—	18,167
Proceeds from issuance of common stock	18,687,500	19	—	—	118,259	—	—	—	118,278
Proceeds from issuance of preferred stock	—	—	2	—	48,349	—	—	—	48,351
Offering costs	—	—	—	—	(4,970)	—	—	—	(4,970)
Stock based compensation	263,343	—	—	—	652	—	—	—	652
Amortization of stock based compensation	—	—	—	—	5,746	—	—	—	5,746
Forfeitures	(2,190)	—	—	—	—	—	—	—	—
Net Income	—	—	—		—	—	21,170	—	21,170
Preferred dividends	—	—	—	—	—	—	(3,111)	—	(3,111)
Securities available-for-sale, fair value adjustment, net	—	—	—		—	4,797	—	—	4,797
Designated derivatives, fair value adjustment	—	—	—	—	—	2,175	—	—	2,175
Distributions on common stock	—	—	—	—	—	—	(18,059)	(29,097)	(47,156)
Balance, June 30, 2013	126,992,913	$ 127	$ 3	$ 1	$ 1,022,253	$ (20,106)	$ —	$ (224,834)	$ 777,444

The accompanying notes are an integral part of these statements

(Back to Index)

7

(Back to Index)

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

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$21,170	$30,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(200)	6,431
Depreciation of investments in real estate and other	1,202	789
Amortization of intangible assets	996	1,936
Amortization of term facilities	495	455
Accretion of net discounts on loans held for investment	(6,930)	(8,013)
Accretion of net discounts on securities available-for-sale	(1,430)	(1,559)
Amortization of discount on notes of CDOs	1,772	689
Amortization of debt issuance costs on notes of CDOs	1,965	2,356
Amortization of stock-based compensation	5,746	2,008
Amortization of terminated derivative instruments	193	113
Distribution accrued to preferred stockholders	(3,111)	—
Accretion of interest-only available-for-sales securities	(485)	—
Non-cash incentive compensation to the Manager	—	613
Deferred income tax benefits	(115)	(1,718)
Purchase of securities, trading	(10,044)	(8,348)
Principal payments on securities, trading	3,272	898
Proceeds from sales of securities, trading	18,713	5,531
Net realized and unrealized loss (gain) on investment securities, trading	635	(3,568)
Net realized gain on sales of investment securities available-for-sale and loans	(2,785)	(1,802)
Gain on early extinguishment of debt	—	(1,835)
Net impairment losses recognized in earnings	548	171
Linked transactions fair value adjustments	6,385	—
Equity in losses of unconsolidated subsidiaries	353	690
Minority interest equity	1,759	—
Changes in operating assets and liabilities	6,635	(13,839)
Net cash provided by operating activities	46,739	12,929

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

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

CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase) decrease in restricted cash	(5,926	)	64,085	
Purchase of securities available-for-sale	(96,031	)	(39,184	)
Principal payments on securities available-for-sale	20,040		17,954	
Proceeds from sale of securities available-for-sale	7,025		6,719	
Investment in unconsolidated entity	(15,534	)	1,470	
Improvement of real estate held-for-sale	(404	)	(138	)
Proceeds from sale of real estate held-for-sale	—		2,886	
Purchase of loans	(377,679	)	(340,523	)
Principal payments received on loans	386,686		240,407	
Proceeds from sale of loans	170,450		93,236	
Distributions from investments in real estate	522		851	
Improvements in investments in real estate	(365	)	(504	)
Purchase of intangible asset	—		(1,517	)
Principal payments received on loans – related parties	362		137	
Net cash provided by investing activities	89,146		45,879	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from issuances of common stock (net of offering costs of $4,265 and $0)	114,018		—	
Net proceeds from dividend reinvestment and stock purchase plan (net of offering costs of $0 and $19)	18,164		32,282	
Proceeds from issuance of 8.5% Series A redeemable preferred shares (net of offering costs of $486 and $0)	—		5,832	
Proceeds from issuance of 8.25% Series B redeemable preferred shares (net of offering costs of $707 and $0)	47,644		—	
Proceeds from borrowings:				
Repurchase agreements	104,325		44,295	
Payments on borrowings:				
Collateralized debt obligations	(286,962	)	(108,881	)
Retirement of debt	—		(4,850	)
Payment of debt issuance costs	(1,178	)	(586	)
Payment of equity to third party sub-note holders	(2,661	)	(1,219	)
Distributions paid on preferred stock	(2,446	)	—	
Distributions paid on common stock	(43,665	)	(36,900	)
Net cash (used in) financing activities	$(52,761	)	$(70,027	)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	83,124		(11,219	)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	85,278		43,116	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$168,402		$31,897	
SUPPLEMENTAL DISCLOSURE:				
Interest expense paid in cash	$20,214		$8,253	

The accompanying notes are an integral part of these statements

(Back to Index)

9

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF 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, CMBS and property available-for-sale.

- RCC Commercial, Inc. ("RCC Commercial") holds bank loan investments. RCC Commercial owns 100% of the equity of the following VIE:

Apidos CDO III, Ltd. ("Apidos CDO III"), a Cayman Islands limited liability company and taxable REIT subsidiary ("TRS"). Apidos CDO III was established to complete a CDO issuance secured by a portfolio of bank loans and asset-backed securities ("ABS").

- RCC Commercial II, Inc. ("Commercial II") holds bank loan investments. Commercial II owns 100% and 68.3%, respectively, of the equity of the following VIEs:

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, ABS and corporate bonds.

Whitney CLO I, Ltd. ("Whitney CLO I"), a Cayman Islands limited liability company and TRS. Whitney CLO I is a collateralized loan obligation ("CLO") issuance secured by a portfolio of bank loans and corporate bonds. The Company is the primary beneficiary of Whitney CLO I and therefore consolidates 100% of this VIE in its financial statements.

- RCC Commercial III, Inc. ("Commercial III") holds bank loan investments and commercial real estate-related securities. Commercial III owns 90% of the equity of the following VIE:

Apidos CDO I, Ltd. ("Apidos CDO I"), a Cayman Islands limited liability company and TRS. Apidos CDO I was established to complete a CDO issuance secured by a portfolio of bank loans and ABS.

- 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 investment securities, trading. Resource TRS owns 100% of the following :
- Resource TRS, LLC, a Delaware limited liability company, established to invest in structured finance securities through an investment manager, including securities issued by CDOs, ABS and CMBS.
- Resource TRS II, Inc. ("Resource TRS II"), a TRS directly owned by the Company, holds the Company's management rights in bank loan CLOs 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 four CLO issuers to which it provides management services through CVC Credit Partners, LLC, formerly Apidos Capital Management, a subsidiary of CVC Capital Partners SICAV-FIS, S.A., a private equity firm (“CVC”). Resource America, Inc. owns a 33% interest in CVC Credit Partners, LLC ("CVC Credit Partners"). Whitney CLO I, one of the RCAM CLOs, is consolidated in the Company's financial statements as a result of a purchase of its preferred equity which gave the Company a controlling interest.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

- Resource TRS III, Inc. ("Resource TRS III"), a TRS directly owned by the Company, holds the Company's interests in a bank loan CDO originated by the Company. Resource TRS III owns 33% of the equity of the following VIE:
- Apidos CLO VIII, Ltd ("Apidos CLO VIII"), a Cayman Islands limited liability company and TRS. Apidos CLO VIII was established to complete a CLO issuance secured by a portfolio of bank loans and corporate bonds. The Company is the primary beneficiary of Apidos CLO VIII and therefore consolidates 100% of this VIE in its financial statements.
- Resource TRS IV, Inc. ("Resource TRS IV"), a TRS directly owned by the Company, holds the Company's equity investment in hotel condominium units acquired in conjunction with a loan foreclosure.
- Resource TRS V, Inc. ("Resource TRS V"), a TRS directly owned by the Company, holds the Company's equity investment in a held for sale condominium complex.
- RSO EquityCo, LLC owns 10% of the equity of Apidos CDO I and 10% of the equity of Apidos CLO VIII.
- Long Term Care Conversion, Inc. (LTCC), a TRS directly owned by the Company is a Delaware corporate which owns 100% of the following entity:
- Long Term Care Conversion, Funding (LTCC Funding), a New York limited liability company, owns a 30% equity interest in Life Care Funding, LLC (LCF) and provides funding through a financing facility to fund the acquisition of life settlement contracts.
- LCF, a New York limited liability company, is a joint venture between LTCC and Life Care Funding Group Partners and was established for the purpose of originating and acquiring life settlement contracts.

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.

All inter-company transactions and balances have been eliminated.

Investment Securities

The Company classifies its investment portfolio as trading or available-for-sale. 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 (see Note 19). To determine fair value, the Company uses a third-party valuation firm utilizing appropriate prepayment, default, and recovery rates. These valuations are validated utilizing dealer quotes or bids. If there is a material difference between the value indicated by the third-party valuation firm and the dealer quote or bid, the Company will evaluate the difference which could result in an updated valuation from the third party or a revised dealer quote. Any changes in fair value are recorded in the Company's results of operations as net realized and unrealized gain on investment securities, trading.

The Company's investment securities available-for-sale are reported at fair value (see Note 19). To determine fair value, the Company uses a dealer quote, 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.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

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 or some portion thereof will not be recovered. 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 operations. Where other market components are believed to be the cause of the impairment, that component of the impairment is recognized as other comprehensive loss.

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

Investment Interest Income Recognition

Interest income on the Company's mortgage-backed and other asset-backed securities is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the lives of the securities also using the effective yield method, adjusted for the effects of estimated prepayments. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed as of each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. If prepayment estimates are incorrect, the amortization or accretion of premiums and discounts may have to be adjusted, which would have an impact on future income.

Allowance for Loan Loss

The Company maintains an allowance for loan loss. 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 a borrower in financial difficulty. 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 would be 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 for 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)
JUNE 30, 2013
(Unaudited)

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 lives. Acquisitions of real estate assets and any related intangible assets are recorded initially at fair value under Financial Accounting Standards Board ("FASB") 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 lives

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.

There were no impairment charges recorded on the Company’s investment in real estate or intangible assets during the three and six months ended June 30, 2013 and 2012.

Recent Accounting Standards

In July 2013, the FASB issued guidance which permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes. This guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect adoption will have a material impact on the its consolidated financial statements.

In June 2013, the FASB issued guidance which clarifies the characteristics of an investment company, provides comprehensive guidance for assessing whether an entity is an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. The guidance also requires additional disclosure. This guidance is effective for an entity’s interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The Company is currently evaluating the effect of adoption, but does not expect adoption will have a material impact on its consolidated financial statements.

In February 2013 the FASB issued guidance which amends required information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendment in this guidance was effective for reporting periods beginning after December 15, 2012. The Company provided the enhanced footnote disclosure as required by this amendment in its consolidated financial statements (see Note 16).

(Back to Index)

In January 2013, the FASB issued guidance which clarifies the scope of accounting for certain derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments in this guidance were effective for interim and annual reporting periods beginning on or after January 1, 2013 and must be applied retrospectively for all comparative periods presented. The Company provided the enhanced footnote disclosure as required by this amendment in its consolidated financial statements (see Note 21).

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 presentation.

NOTE 3 – VARIABLE INTEREST ENTITITES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes) and its CDOs in order to determine if they qualify as VIEs. The Company monitors these investments and, to the extent it has determined that it owns a material investment in the current controlling class of securities of a particular entity, analyzes the entity for potential consolidation. The Company will continually analyze investments and liabilities, including when there is a reconsideration event, to determine whether such investments or liabilities are VIEs and whether any such VIE should be consolidated. This analysis requires considerable judgment in determining the primary beneficiary of a VIE and could result in the consolidation of an entity that would otherwise not have been consolidated or the non-consolidation of an entity that would have otherwise been consolidated.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management’s analysis, the Company is the primary beneficiary of seven VIEs: Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII, RREF CDO 2006-1, RREF CDO 2007-1 and Whitney CLO I. In performing the primary beneficiary analysis for six of these VIEs (other than Whitney CLO I, which is discussed below), it was determined that the persons that have the power to direct the activities that are most significant to each of these VIEs and the Company who has the right to receive benefits and the obligation to absorb losses that could potentially be significant to these VIEs, are a related party group. It was then determined that the Company was the party within that group that is more closely associated to each such VIE because of its preferred equity (and in some cases debt) interest in them.

These CDO and CLO entities were formed on behalf of the Company (except for Whitney CLO I, referred to below) to invest in real estate-related securities, CMBS, property available-for-sale, bank loans, corporate bonds and asset-backed securities, or ABS, and were financed by the issuance of debt securities. The manager manages these entities on behalf of the Company. By financing these assets with long-term borrowings through the issuance of CDO and CLO bonds, the Company seeks to generate attractive risk-adjusted equity returns and to match the term of its assets and liabilities. The primary beneficiary determination for each of these VIEs was made at each VIE’s inception. Whitney CLO I, the seventh entity, is one in which the Company acquired the rights to manage the assets held by the entity as collateral for its CLOs in February 2011. For a discussion on the primary beneficiary analysis for Whitney CLO I, see “— Unconsolidated VIEs – Resource Capital Asset Management,” below. For a discussion of the Company’s CDOs and CLOs, see Note 1, and for a discussion of the debt issued through the CDOs and CLOs, see Note 12.

For CLOs in which the Company does not own 100% of the subordinated notes, the Company imputes an interest rate using expected cash flows over the life of the CLO and records the third party's share of the cash flows as interest expense on the consolidated statement of income.

The Company has exposure to CDO and CLO losses to the extent of its subordinated debt and preferred equity interests in them. The Company is entitled to receive payments of principal and interest on the debt securities it holds and, to the extent revenues exceed debt service requirements and other expenses of the CDO or CLO, distributions with respect to its preferred equity interests. As a result of consolidation, debt and equity interests the Company holds in these CDOs and CLOs have been eliminated, and the Company’s consolidated balance sheet reflects both the assets held and debt issued by the CDOs and CLOs to third parties and any accrued expense to third parties. The Company's operating results and cash flows include the gross amounts related to CDO and CLO assets and liabilities as opposed to the Company's net economic interests in the CDO and CLO entities. Assets and liabilities related to the CDOs and CLOs are disclosed, in the aggregate, on the Company's consolidated balance sheets.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The creditors of the Company's seven consolidated VIEs have no recourse to the general credit of the Company. However, in its capacity as manager, the Company has voluntarily supported two credits in one of its commercial real estate CDOs as the credits went through a restructuring in order to maximize their future cash flows. For the three and six months ended June 30, 2012, the Company provided financial support of $0 and $199,000, respectively. For the three and six months ended June 30, 2013, the Company provided no financial support. The Company has provided no financial support to any of its other VIEs nor does it have any requirement to do so, although it may choose to do so in the future to maximize future cash flows on such investments by the Company. There are no explicit arrangements or implicit variable interests that obligate the Company to provide financial support to any of its consolidated VIEs, although the Company may choose to do so in the future.
The following table shows the classification and carrying value of assets and liabilities of consolidated VIEs as of June 30, 2013 (in thousands):

	Apidos I	Apidos III	Apidos Cinco	Apidos VIII	Whitney CLO I	RREF 2006	RREF 2007	Total
ASSETS								
Restricted cash [1]	$24,053	$4,849	$24,828	$9,908	$14,342	$15,595	$710	$94,285
Investment securities available-for-sale, pledged as collateral, at fair value	8,006	6,410	12,359	1,940	29,794	11,388	66,352	136,249
Loans, pledged as collateral	110,092	159,424	309,278	321,792	77,108	173,959	258,534	1,410,187
Loans held for sale	850	234	299	17,955	789	—	—	20,127
Interest receivable	(90)	642	1,074	788	318	1,239	1,683	5,654
Prepaid assets	24	21	22	29	45	16	63	220
Principal receivable	—	8	23	—	—	—	—	31
Other assets	—	—	35	—	—	—	—	35
Total assets [2]	$142,935	$171,588	$347,918	$352,412	$122,396	$202,197	$327,342	$1,666,788
LIABILITIES								
Borrowings	$126,093	$159,068	$323,152	$330,123	$108,027	$116,111	$182,880	$1,345,454
Accrued interest expense	292	68	328	1,374	218	46	103	2,429
Derivatives, at fair value	—	—	—	—	—	1,455	10,782	12,237
Accounts payable and other liabilities	146	27	34	387	69	18	2	683
Total liabilities	$126,531	$159,163	$323,514	$331,884	$108,314	$117,630	$193,767	$1,360,803

(1) Includes $29.3 million available for reinvestment in certain of the CDOs.
(2) Assets of each of the consolidated VIEs may only be used to settle the obligations of each respective VIE.
Unconsolidated VIEs (the Company is not the primary beneficiary, but has a variable interest)

Based on management's analysis, the Company is not the primary beneficiary of the VIEs discussed below since it does not have both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. Accordingly, the following VIEs are not consolidated in the Company's consolidated financial statements as of June 30, 2013. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Risk Exposure" column in the table below.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

LEAF Commercial Capital, Inc.

On November 16, 2011, the Company, together with LEAF Financial, a subsidiary of Resource America, and Leaf Commercial Capital, Inc. (“LCC”), subsidiaries of Resource America, entered into a stock purchase agreement and related agreements (collectively the “SPA”) with Eos Partners, L.P., a private investment firm, and its affiliates (“Eos”). In exchange for its prior interests in its lease related investments, the Company received 31,341 shares of Series A Preferred Stock (the “Series A Preferred Stock”), 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock (the “Series B Preferred Stock”) and 2,364 shares of newly issued Series D Redeemable Preferred Stock (the “Series D Preferred Stock”), collectively representing, on a fully-diluted basis assuming conversion, a 26.7% interest in LCC. Several approaches were used, including discounted expected cash flows, market approach and comparable sales transactions to estimate the fair value of its investment in LCC as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. On January 18, 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,682 shares of newly issued Series A-1 Preferred Stock (the "Series A-1 Preferred Stock") for $3.7 million. During the second quarter of 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,323 shares of newly issued Series E Preferred Stock (the "Series E Preferred Stock") for $3.3 million. The Series E Preferred Stock has priority over all other classes of preferred stock. The Company's fully-diluted interest in LCC assuming conversion is 27.5%. The Company’s investment in LCC was held at $40.0 million and $33.1 million as of June 30, 2013 and December 31, 2012, respectively.

The Company determined that it is not the primary beneficiary of LCC because it does not participate in any management or portfolio decisions, holds only two of six board positions, and only controls 27.5% of the voting rights in the entity. Furthermore, Eos holds consent rights with respect to significant LCC actions, including incurrence of indebtedness, consummation of a sale of the entity, liquidation or initiating a public offering.

In connection with this transaction, the Company and Resource America have undertaken a contingent obligation with respect to the value of the equity on the balance sheet of LEAF Receivables Funding 3, a wholly-owned subsidiary of LCC which owns equipment, equipment leases and notes. LEAF Receivables Funding 3 was included in the assets contributed to LCC by the Company. As part of the SPA, the Company and Resource America agreed that, to the extent the value of the equity on the balance sheet of LEAF Receivables Funding 3 is less than approximately $18.7 million (the value of the equity of LEAF Receivables Funding 3 on the date it was contributed to LCC by the Company), as of the final testing date, which must be within 90 days following December 31, 2013, they will be jointly and severally obligated to contribute cash to LCC to make up the deficit. The Company does not believe it is probable that it will be required to fund LCC in accordance with the SPA based on estimated operating results because LEAF Receivables Funding 3 is currently profitable and is expected to be profitable through the year ended December 31, 2013.

Unsecured Junior Subordinated Debentures

The Company has a 100% interest in the common shares of Resource Capital Trust I (“RCT I”) and RCC Trust II (“RCT II”), valued at $1.5 million in the aggregate (or 3% of each trust). RCT I and RCT II were formed for the purposes of providing debt financing to the Company, as described below. The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts and determined that it was not the primary beneficiary of either trust because it does not have the power to direct the activities most significant to the trusts, which include the collection of principal and interest and protection of collateral through servicing rights. Accordingly, neither trust is consolidated into the Company’s consolidated financial statements.

The Company records its investments in RCT I and RCT II's common shares as investments in unconsolidated trusts using the cost method and records dividend income when declared by RCT I and RCT II. The trusts each hold subordinated debentures for which the Company is the obligor in the amount of $25.8 million for RCT I and $25.8 million for RCT II. The debentures were funded by the issuance of trust preferred securities of RCT I and RCT II. The Company will continuously reassess whether it should be deemed to be the primary beneficiary of the trusts.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Resource Capital Asset Management CLOs
In February 2011, the Company purchased a company that manages $1.9 billion of bank loan assets through five CLOs. As a result, the Company is entitled to collect senior, subordinated and incentive management fees from these CLOs. The purchase price of $22.5 million resulted in an intangible asset that was allocated to each of the five CLOs and is being amortized over the expected life of each CLO. The unamortized balance of the intangible asset was $12.1 million and $13.1 million at June 30, 2013 and December 31, 2012, respectively. The Company recognized fee income of $1.5 million and $2.9 million for the three and six months ended June 30, 2013, respectively, and $1.8 million and $3.7 million for the three and six months ended June 30, 2012, respectively. With respect to four of these CLOs, the Company determined that it does not hold a controlling interest and, therefore, is not the primary beneficiary. One of these CLOs was liquidated in January 2013. With respect to the fifth CLO, Whitney CLO I, in October 2012, the Company purchased 66.6% of its preferred equity, which was determined to be a reconsideration event. Based upon that purchase, the Company determined that it does have an obligation to absorb losses and/or the right to receive benefits that could potentially be significant to Whitney CLO I and that a related party has the power to direct the activities that are most significant to the VIE. As a result, together with the related party, the Company has both the power to direct and the right to receive benefits and the obligation to absorb losses. It was then determined that, between the Company and the related party, the Company was the party within that group that is more closely associated with Whitney CLO I because of its preferred equity interest in Whitney CLO I. The Company, therefore, consolidated Whitney CLO I. In May 2013, the Company purchased additional equity in this CLO which increased its equity ownership to 68.3% of the outstanding preferred equity of Whitney CLO I.
Real Estate Joint Ventures
On December 1, 2009, the Company purchased a membership interest in RRE VIP Borrower, LLC (a VIE that holds interests in a real estate joint venture) from Resource America. This joint venture, which is structured as a credit facility with Värde Investment Partners, LP acting as lender, finances the acquisition of distressed properties and mortgage loans and has the objective of repositioning both the directly-owned properties and the properties underlying the mortgage loans to enhance their value. The Company acquired the membership interests for $2.1 million. The joint venture agreement requires the Company to contribute 3% to 5% (depending on the terms of the agreement pursuant to which the particular asset is being acquired) of the total funding required for each asset acquisition as needed up to a specified amount. The Company provided funding of $34,000 and $136,000 for the three and six months ended June 30, 2013 and $87,000 and $319,000 for the three and six months ended June 30, 2012, respectively, for these investments. Resource Real Estate Management, LLC (“RREM”), an affiliate of Resource America, acts as asset manager of the venture and receives a monthly asset management fee. For the three and six months ended June 30, 2013, the Company recorded losses of $101,000 and $214,000, respectively. For the three and six months ended June 30, 2012, the Company recorded losses of $486,000 and a gain of $585,000, respectively. Using the equity method of accounting, these losses were recorded in equity in earnings of unconsolidated subsidiaries on the consolidated statement of income. The Company’s investment in RRE VIP Borrower, LLC at June 30, 2013 and December 31, 2012 was $1.4 million and $2.3 million, respectively.
On June 19, 2012, the Company entered into a second joint venture with Värde Investment Partners, LP acting as lender, to purchase two condominium developments. The Company purchased a 7.5% equity interest in the venture. The Company may be subject to a capital call based on its pro rata share of equity interest in the venture up to the earlier of the end of the investment period, ending in May 2015, or the date the aggregate of all capital contributions exceeds $500.0 million. RREM was appointed as the asset manager of the venture to perform lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also

responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. The Company's investment in the joint venture at June 30, 2013 and December 31, 2012 was $569,000 and $526,000, respectively. Using the equity method of accounting, the Company recognized equity in earnings related to this investment of $19,000 and $43,000 for the three and six months ended June 30, 2013, respectively. No such income was recorded for the three and six months ended June 30, 2012.

The Company has determined that it does not have the power to direct the activities that most significantly impact the economic performance of each of these ventures, which include asset underwriting and acquisition, lease review and approval, and loan asset servicing, and, therefore, the Company is not the primary beneficiary of either.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

CVC Global Credit Opportunities Fund

In May and June 2013, the Company invested a total of $10.0 million in CVC Global Credit Opportunities Fund, a fund which seeks to generate returns targeting corporate credit through a mater-feeder fund structure. While a related party manages the investments in this fund, The Company determined that it does not have an obligation to absorb losses and/or the right to receive benefits that could potentially be significant to this VIE. Therefore, the Company is not deemed to be the primary beneficiary and the fund is not consolidated onto the Company's consolidated financial statements. The Company records its investment in the fund using the equity method. For the three and six months ended June 30, 2013, the Company recognized $93,000 of income in equity in income (losses) of unconsolidated entities on the consolidated income statement. The investment balance of $10.1 million at June 30, 2013 is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheet.

Life Care Funding

In 2013, Long Term Care Conversion, Inc. (LTCC), a wholly-owned subsidiary of RCC invested $2.0 million into Life Care Funding, LLC (LCF) for the purpose of originating and acquiring life settlement contracts. Although the Investment Committee and Board are controlled by the joint venture partner, the joint venture partner must obtain LTCC's approval to make any investments and the joint venture partner must obtain LTCC approval for all material business operations. As a result, the Company determined that there was joint control and we will not consolidate LCF. Using the equity method, the Company recognized a loss of $242,000 during the three and six months ended June 30, 2013, as equity in earnings of unconsolidated subsidiaries. The Company's investment in LCF was $1.8 million at June 30, 2013.

The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company's unconsolidated VIEs as of June 30, 2013 (in thousands):

	Unconsolidated Variable Interest Entities								
	LEAF Commercial Capital, Inc.	Unsecured Junior Subordinated Debentures	Resource Capital Asset Management CLOs	RRE VIP Borrower, LLC	Värde Investment Partners, LP	Life Care Funding	CVC Global Opps Fund	Total	Maximum Exposure to Loss [(1)]
Investment in unconsolidated entities	$40,045	$1,548	$—	$1,373	$569	$1,758	$10,093	$55,386	$55,386
Intangible assets	—	—	12,140	—	—	—	—	12,140	$12,140
Total assets	40,045	1,548	12,140	1,373	569	1,758	10,093	67,526	
Borrowings	—	50,908	—	—	—	—	—	50,908	N/A
Total liabilities	—	50,908	—	—	—	—	—	50,908	N/A
Net asset (liability)	$40,045	$(49,360)	$12,140	$1,373	$569	$1,758	$10,093	$16,618	N/A

(1) The Company's maximum exposure to loss at June 30, 2013 does not exceed the carrying amount of its investment, subject to the LEAF Receivables Funding 3's contingent obligation as described above.

Other than the contingent liability arrangement described above in connection with LCC and the commitments to fund its real estate joint ventures, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

NOTE 4 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information (in thousands):

	Six Months Ended June 30,	
	2013	2012
Non-cash financing activities include the following:		
Distributions on common stock declared but not paid	$25,399	$17,254
Distribution on preferred stock declared but not paid	$1,944	$25
Income taxes paid in cash	$9,113	$8,253
Issuance of restricted stock	$151	$482

NOTE 5 – 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
June 30, 2013:				
Structured notes	$8,471	$4,146	$(1,000)	$11,617
RMBS	1,956	—	(1,307)	649
Total	$10,427	$4,146	$(2,307)	$12,266
December 31, 2012:				
Structured notes	$9,413	$10,894	$(1,028)	$19,279
RMBS	6,047	858	(1,341)	5,564
Total	$15,460	$11,752	$(2,369)	$24,843

The Company purchased three securities and sold six securities during the six months ended June 30, 2013, for a net gain of $6.9 million. The Company held 10 and 13 investment securities, trading as of June 30, 2013 and December 31, 2012, respectively.

NOTE 6 – INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The Company pledges a portion of its CMBS as collateral against its borrowings under repurchase agreements and derivatives. If the Company finances the purchase of securities with repurchase agreements with the same counterparty from whom the securities are purchased and both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed not to meet sale accounting criteria and the Company will account for the purchase of such securities and the repurchase agreement on a net basis and record a forward purchase commitment to purchase securities (each, a “Linked Transaction”) at fair value on the Company's consolidated balance sheet in the line item Linked Transactions, at fair value. Changes in the fair value of the assets and liabilities underlying the Linked Transactions and associated interest income and expense are reported as unrealized (loss) gain and net interest income on linked transactions, net on the Company's consolidated statement of income. CMBS that are accounted for as components of Linked Transactions are not reflected in the tables set forth in this note, as they are accounted for as derivatives. (see Notes 2 and 20).

(Back to Index)

19

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

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 [1]	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2013:				
CMBS	$184,627	$7,467	$(15,595)	$176,499
ABS	23,687	1,898	(609)	24,976
Corporate bonds	34,096	117	(680)	33,533
Other asset-backed	—	—	—	—
Total	$242,410	$9,482	$(16,884)	$235,008
December 31, 2012:				
CMBS	$182,828	$4,626	$(16,639)	$170,815
ABS	26,479	1,700	(1,127)	27,052
Corporate Bonds	33,767	111	(178)	33,700
Other asset-backed	—	23	—	23
Total	$243,074	$6,460	$(17,944)	$231,590

(1) As of June 30, 2013 and December 31, 2012, $194.6 million and $195.2 million, respectively, of securities were pledged as collateral security under related financings.

The following table summarizes the estimated maturities of the Company's CMBS, ABS, and corporate bonds according to their estimated weighted average life classifications (in thousands, except percentages):

Weighted Average Life	Fair Value		Amortized Cost	Weighted Average Coupon
June 30, 2013:				
Less than one year	$45,517	(1)	$50,111	4.84%
Greater than one year and less than five years	146,889		149,325	4.77%
Greater than five years and less than ten years	38,234		38,031	2.49%
Greater than ten years	4,368		4,943	4.03%
Total	$235,008		$242,410	4.40%
December 31, 2012:				
Less than one year	$42,618	(1)	$46,522	4.09%
Greater than one year and less than five years	122,509		131,076	4.55%
Greater than five years and less than ten years	61,780		60,801	3.31%
Greater than ten years	4,683		4,675	4.03%
Total	$231,590		$243,074	4.12%

(1) The Company expects that the maturity date of these CMBS will either be extended or the CMBS will be paid in full.

The contractual maturities of the CMBS investment securities available-for-sale range from August 2013 to April 2027. The contractual maturities of the ABS investment securities available-for-sale range from November 2015 to August 2022. The contractual maturities of the corporate bond investment securities available-for-sale range from May 2014 to February 2022 .

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

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 during the periods specified (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
June 30, 2013:						
CMBS	$67,441	$(9,410)	$11,400	$(6,185)	$78,841	$(15,595)
ABS	259	(3)	6,474	(606)	6,733	(609)
Corporate bonds	25,283	(680)	—	—	25,283	(680)
Total temporarily impaired securities	$92,983	$(10,093)	$17,874	$(6,791)	$110,857	$(16,884)
December 31, 2012:						
CMBS	$25,803	$(442)	$38,734	$(16,197)	$64,537	$(16,639)
ABS	—	—	5,961	(1,115)	5,961	(1,115)
Corporate bonds	19,445	(190)	—	—	19,445	(190)
Total temporarily impaired securities	$45,248	$(632)	$44,695	$(17,312)	$89,943	$(17,944)

The Company held 13 and 19 CMBS investment securities available-for-sale that have been in a loss position for more than 12 months as of June 30, 2013 and December 31, 2012, respectively. The Company held nine ABS investment securities available-for-sale that have been in a loss position for more than 12 months as of June 30, 2013 and December 31, 2012, respectively. The Company had no corporate bonds that have been in a loss position for more than 12 months as of June 30, 2013 and December 31, 2012. 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 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 of the security as generated by a third-party valuation model;
- original and current credit ratings from the rating agencies;
- underlying credit fundamentals of the collateral backing the securities;
- 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; and
- third-party support for default, for recovery, prepayment speed and reinvestment price assumptions.

At June 30, 2013 and December 31, 2012, the Company held $176.5 million and $170.8 million, respectively, (net of net unrealized losses of $8.1 million and $12.0 million, respectively), of CMBS recorded at fair value. To determine fair value, the Company uses dealer quotes which are provided by the Company's trade or financing counterparties (see Note 2).

At June 30, 2013 and December 31, 2012, the Company held $25.0 million and $27.1 million, respectively, (net of net unrealized gains of $1.3 million and $574,000, respectively, of ABS recorded at fair value) (see Note 2). To determine their fair value, the Company uses dealer quotes.

(Back to Index)

(Back to Index)

At June 30, 2013 and December 31, 2012, the Company held $33.5 million and $33.7 million, respectively, (net of net unrealized losses of $563,000 and losses of $67,000, respectively), of corporate bonds recorded at fair value (see Note 2). To determine their fair value, the Company uses dealer quotes.

The Company's securities classified as available-for-sale have increased in fair value on a net basis as of June 30, 2013 as compared to December 31, 2012, primarily due to improving dealer quotes and new purchases in 2013. The Company performs an on-going review of third-party reports and updated financial data on the underlying properties in order to analyze current and projected security performance. Rating agency downgrades are considered with respect to the Company's income approach when determining other-than-temporary impairment and, when inputs are subjected to testing for economic changes within possible ranges, the resulting projected cash flows reflect a full recovery of principal and interest indicating no impairment. During the three and six months ended June 30, 2013 and 2012, the Company did not recognize any other-than-temporary impairment on positions that supported the Company's CMBS investment.

During the three and six months ended June 30, 2013, the Company sold a portion of 12 and 14 corporate bond positions with a total par value of $2.3 million and $3.0 million, respectively, and recognized a gain of $44,000 and $62,000, respectively. During the three and six months ended June 30, 2012, the Company sold two and five corporate bond positions with a total par value of $1.3 million and $2.8 million, respectively, and recognized gains of $11,000 and $22,000, respectively. During the three and six months ended June 30, 2013 the Company had two corporate bond positions redeemed with a total par value of $3.5 million, and recognized a loss of $11,000. During the three and six months ended June 30, 2012, the Company had one corporate bond position redeemed with a total par value of $182,000, and recognized a gain of $39,000.

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 June 30, 2013 and December 31, 2012, the aggregate discount due to interest rate changes exceeded the aggregate premium on the Company's CMBS by approximately $5.0 million and $8.0 million, respectively. At June 30, 2013 and December 31, 2012, the aggregate discount on the Company's ABS portfolio was $2.8 million and $3.1 million, respectively. There were no premiums on the Company's ABS investment portfolio at June 30, 2013 and December 31, 2012. At June 30, 2013 the aggregate discount on the Company's corporate bond portfolio was $96,000. At December 31, 2012, the aggregate premium on the Company's corporate bond portfolio was $608,000.

NOTE 7 – INVESTMENTS IN REAL ESTATE

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

	As of June 30, 2013		As of December 31, 2012	
	Book Value	Number of Properties	Book Value	Number of Properties
Multi-family property	$22,033	1	$42,179	2
Office property	10,149	1	10,149	1
Hotel property	25,668	1	25,608	1
Subtotal	57,850		77,936	
Less: Accumulated depreciation	(2,489)		(2,550)	
Investments in real estate	$55,361		$75,386	

During the three and six months ended June 30, 2013, the Company made no acquisitions. During the quarter ended June 30, 2013, the Company entered into a listing agreement for one of its investments in real estate. This asset has been reclassified to property available-for-sale on the balance sheet. During the year ended December 31, 2012 , the

Company foreclosed on one self-originated loan and converted the loan to equity with a fair value of $25.5 million at acquisition. The loan was collateralized by a 179 unit hotel property in Coconut Grove, Florida. The property had an occupancy rate of 75% at acquisition.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following table is a summary of the aggregate estimated fair value of the assets and liabilities acquired on the respective date of acquisition during the year ended December 31, 2012 (in thousands). There were no such acquisitions during the six months ended June 30, 2013.

Description	December 31, 2012
Assets acquired:	
Investments in real estate	$25,500
Cash and cash equivalents	—
Restricted cash	—
Intangible assets	—
Other assets	(89)
Total assets acquired	25,411
Liabilities assumed:	
Accounts payable and other liabilities	3,750
Total liabilities assumed	3,750
Estimated fair value of net assets acquired	$21,661

NOTE 8 – 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)]
June 30, 2013:			
Bank loans [(3)]	$1,015,953	$(15,066)	$1,000,887
Commercial real estate loans:			
Whole loans	611,271	(2,564)	608,707
B notes	16,364	(99)	16,265
Mezzanine loans	67,095	(85)	67,010
Total commercial real estate loans	694,730	(2,748)	691,982
Subtotal loans before allowances	1,710,683	(17,814)	1,692,869
Allowance for loan loss	(14,131)	—	(14,131)
Total	$1,696,552	$(17,814)	$1,678,738
December 31, 2012:			
Bank loans [(3)]	$1,218,563	$(25,249)	$1,193,314
Commercial real estate loans:			
Whole loans [(4)]	569,829	(1,891)	567,938
B notes	16,441	(114)	16,327
Mezzanine loans	82,992	(206)	82,786
Total commercial real estate loans	669,262	(2,211)	667,051
Subtotal loans before allowances	1,887,825	(27,460)	1,860,365
Allowance for loan loss	(17,691)	—	(17,691)
Total	$1,870,134	$(27,460)	$1,842,674

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

(1) Amounts include deferred amendment fees of $325,000 and $450,000 and deferred upfront fees of $285,000 and $334,000 being amortized over the life of the bank loans as of June 30, 2013 and December 31, 2012, respectively. Amounts include loan origination fees of $2.5 million and $1.9 million and loan extension fees of $0 and $214,000 being amortized over the life of the commercial real estate loans as of June 30, 2013 and December 31, 2012, respectively.

(2) Substantially all loans are pledged as collateral under various borrowings at June 30, 2013 and December 31, 2012, respectively.

(3) Amounts include $20.1 million and $14.9 million of bank loans held for sale at June 30, 2013 and December 31, 2012, respectively.

(4) Amount includes $34.0 million from two whole loans which are classified as loans held for sale at December 31, 2012.

At June 30, 2013 and December 31, 2012, approximately 41.2% and 47.7%, respectively, of the Company's commercial real estate loan portfolio was concentrated in commercial real estate loans located in California; approximately 7.6% and 7.9%, respectively, in Arizona; and approximately 18.5% and 11.1%, respectively, in Texas. At June 30, 2013 and December 31, 2012, approximately 14.3% and 13.2%, of the Company's bank loan portfolio was concentrated in the collective industry grouping of healthcare, education and childcare.

At June 30, 2013, the Company's bank loan portfolio consisted of $1.0 billion (net of allowance of $4.3 million) of floating rate loans, which bear interest ranging between the three month London Interbank Offered Rate ("LIBOR") plus 1.5% and three month LIBOR plus 10.0% with maturity dates ranging from December 2013 to June 2021.

At December 31, 2012, the Company's bank loan portfolio consisted of $1.2 billion (net of allowance of $9.7 million) of floating rate loans, which bear interest ranging between the three month LIBOR plus 1.5% and three month LIBOR plus 8.8% with maturity dates ranging from August 2013 to January 2021.

The following is a summary of the weighted average life of the Company's bank loans, at amortized cost (in thousands):

	June 30, 2013	December 31, 2012
Less than one year	$17,611	$10,028
Greater than one year and less than five years	596,981	821,568
Five years or greater	386,295	361,718
	$1,000,887	$1,193,314

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following is a summary of the Company's commercial real estate loans held for investment (dollars in thousands):

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates [3]
June 30, 2013:				
Whole loans, floating rate [1]	44	$608,707	LIBOR plus 2.50% to LIBOR plus 8.0%	September 2013 to February 2019
B notes, fixed rate	1	16,265	8.68%	April 2016
Mezzanine loans, fixed rate [6]	4	67,010	0.50% to 20.00%	September 2014 to September 2019
Total [2]	49	$691,982		
December 31, 2012:				
Whole loans, floating rate [1] [4] [5]	37	$567,938	LIBOR plus 2.50% to LIBOR plus 5.50%	June 2013 to February 2019
B notes, fixed rate	1	16,327	8.68%	April 2016
Mezzanine loans, floating rate	2	15,845	LIBOR plus 2.50% to LIBOR plus 7.45%	August 2013 to December 2013
Mezzanine loans, fixed rate [6]	3	66,941	0.50% to 20.00%	September 2014 to September 2019
Total [2]	43	$667,051		

(1) Whole loans had $10.8 million and $8.9 million in unfunded loan commitments as of June 30, 2013 and December 31, 2012, respectively. These commitments are funded as the borrowers request additional funding and have satisfied the requirements to obtain this additional funding.
(2) The total does not include an allowance for loan loss of $9.8 million and $8.0 million as of June 30, 2013 and December 31, 2012, respectively.
(3) Maturity dates do not include possible extension options that may be available to the borrowers.
(4) Floating rate whole loans include a $2.0 million portion of a whole loan that has a fixed rate of 15.0% as of December 31, 2012.
(5) Amount includes $34.0 million from two whole loans that were classified as loans held for sale at December 31, 2012.
(6) Fixed rate mezzanine loans include a mezzanine loan that was modified into two tranches which both currently pay interest at 0.50%. In addition, the subordinate tranche accrues interest at LIBOR plus 18.50% which is deferred until maturity.

The following is a summary of the weighted average life of the Company's commercial real estate loans, at amortized cost (in thousands):

Description	2013	2014	2015 and Thereafter	Total
June 30, 2013:				
B notes	$—	$—	$16,265	$16,265
Mezzanine loans	—	20,813	46,197	67,010
Whole loans	4,000	—	604,707	608,707

Total (1)	$4,000	$20,813	$667,169	$691,982
December 31, 2012:				
B notes	$—	$—	$16,327	$16,327
Mezzanine loans	5,328	20,694	56,764	82,786
Whole loans	71,799	—	496,139	567,938
Total (1)	$77,127	$20,694	$569,230	$667,051

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

(1) Weighted average life of commercial real estate loans assumes full exercise of extension options available to borrowers.

The following is a summary of the allocation of the allowance for loan loss with respect to the Company's commercial real estate and bank loans (in thousands, except percentages) by asset class:

Description	Allowance for Loan Loss	Percentage of Total Allowance
June 30, 2013:		
B notes	$197	1.39%
Mezzanine loans	632	4.47%
Whole loans	9,015	63.80%
Bank loans	4,287	30.34%
Total	$14,131	
December 31, 2012:		
B notes	$206	1.16%
Mezzanine loans	860	4.86%
Whole loans	6,920	39.12%
Bank loans	9,705	54.86%
Total	$17,691	

As of June 30, 2013, the Company had recorded an allowance for loan losses of $14.1 million consisting of a $4.3 million allowance on the Company's bank loan portfolio and a $9.8 million allowance on the Company's commercial real estate portfolio as a result of the provisions taken on four bank loans and one commercial real estate loan as well as the maintenance of a general reserve with respect to these portfolios. The bank loan allowance decreased $5.4 million from $9.7 million as of December 31, 2012 to $4.3 million as of June 30, 2013 as a result of improved credit conditions. The whole loan allowance increased $2.1 million from $6.9 million as of December 31, 2012 to $9.0 million as of June 30, 2013 as a result of specific provisions taken on one commercial real estate loan.

As of December 31, 2012, the Company had recorded an allowance for loan losses of $17.7 million consisting of a $9.7 million allowance on the Company's bank loan portfolio and a $8.0 million allowance on the Company's commercial real estate portfolio as a result of the impairment of one bank loan and four commercial real estate loans as well as the maintenance of a general reserve with respect to these portfolios.

NOTE 9 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

In May 2013, the Company entered into a limited partnership agreement with CVC Global Credit Opportunities Fund, L.P., a Delaware limited partnership which generally invests in assets through a master-feeder fund structure ("the Master Fund"). The Company invested $10.0 million as of June 30, 2013. The General Partner of the Partnership and the Master Fund is CVC Global Credit Opportunities Fund GP, LLC, a Delaware limited liability company. The investment manager of the partnership and the Master Fund is CVC Credit Partners, LLC. CVC Capital Partners SICAV-FIS, S.A., a Luxembourg company, together with its affiliates, and Resource America, own a majority and a significant minority, respectively, of the investment manager. The fund will pay the investment manager a quarterly management fee in advance calculated at the rate of 1.5% annually based on the balance of each limited partner's capital account. The Company's management fee was waived upon entering the agreement given that the Company is a related party of CVC Credit Partners, LLC. The investment balance of $10.1 million at June 30, 2013 is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheet using the equity method.

In January 2013, Long Term Care Conversion, Inc. (LTCC), a wholly-owned subsidiary of RCC invested $2.0 million into Life Care Funding, LLC (LCF) for the purpose of originating and acquiring life settlement contracts. Although the Investment Committee and Board are controlled by the joint venture partner, the joint venture partner must obtain LTCC's unanimous approval to make any investments and the joint venture partner must obtain LTCC approval for all material business operations. As a result, the Company determined that there was joint control and, therefore, neither Company nor its joint venture partner will consolidate LCF. Using the equity method, the Company recognized a loss of $242,000 during the three and six months ended June 30, 2013, as equity in earnings of unconsolidated subsidiaries. The Company's investment in LCF was $1.8 million at June 30, 2013.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On June 19, 2012, the Company entered into a joint venture with Värde Investment Partners, LP acting as lender, to purchase two condominium developments. The Company purchased a 7.5% equity interest in the venture. RREM, was appointed as the asset manager of the venture to perform lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable (see Note 3). RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM receives an annual asset management fee equal to 1.0% of outstanding contributions. The Company incurred fees payable to RREM of $10,000 and $26,000, respectively, during the three and six months ended June 30, 2013. There were no such fees for the three and six months ended months ended June 30, 2012. For the three and six months ended June 30, 2013, the Company recorded earnings of $19,000 and $43,000, which were recorded in equity in (losses) earnings of unconsolidated subsidiaries on the consolidated statement of income. There was no such income for the three and six months ended June 30, 2012. The investment balance of $569,000 and $526,000 at June 30, 2013 and December 31, 2012, respectively, is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheet using the equity method. The Company will continuously reassess whether it should be deemed to be the primary beneficiary of the trusts.

On November 16, 2011, the Company, together with LEAF Financial and LCC, entered into a SPA with Eos Partners, L.P. In exchange for its prior interest in LCC, the Company received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock and 2,364 shares of newly issued Series D Redeemable Preferred Stock, collectively representing, on a fully-diluted basis assuming conversion, a 26.7% interest in LCC. The Company's investment in LCC was valued at $36.3 million based on a third-party valuation. Several approaches were used, including discounted expected cash flows, market approach and comparable sales transactions to estimate the fair value of its investment in LCC as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. The Company recorded a loss of $2.2 million in conjunction with the transaction. On January 18, 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,682 shares of newly issued Series A-1 Preferred Stock for $3.7 million. During the second quarter of 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,323 shares of newly issued Series E Preferred Stock for $3.3 million. The Series E Preferred Stock has priority over all other classes of preferred stock. The Company's fully-diluted basis assuming conversion is 27.5%. The Company's interest in the investment is accounted for under the equity method. For the three and six months ended June 30, 2013, the Company recorded earnings of $304,000 and a loss of $32,000, respectively, which was recorded in equity in (losses) earnings of unconsolidated subsidiaries on the consolidated statements of income. For the three and six months ended June 30, 2012, the Company recorded a $1.3 million loss which was recored in other expense on the consolidated statements of income. The Company's investment in LCC was valued at $40.0 million and $33.1 million as of June 30, 2013 and December 31, 2012, respectively.

In accordance with the SPA, the Company and Resource America have undertaken a contingent obligation with respect to the value of the equity on the balance sheet of LEAF Receivables Funding 3, a wholly-owned subsidiary of LCC which owns equipment, equipment leases and notes. To the extent that the value of the equity on the balance sheet of LEAF Receivables Funding 3 is less than approximately $18.7 million (the value of the equity of LEAF Receivables Funding 3 on the date it was contributed to LCC by the Company), as of the final testing date within 90 days of December 31, 2013, the Company and Resource America have agreed to be jointly and severally obligated to contribute cash to LCC to make up the deficit. The Company does not believe it is probable that it will be required to fund LCC in accordance with the SPA based on estimated operating results because LEAF Receivables Funding 3 is currently profitable and is expected to be profitable through the year ended December 31, 2013.

(Back to Index)

(Back to Index)

On December 1, 2009, the Company purchased a membership interest in RRE VIP Borrower, LLC (an unconsolidated VIE that holds the Company's interests in a real estate joint venture) from Resource America at book value. This joint venture, which is structured as a credit facility with Värde Investment Partners, LP acting as lender, finances the acquisition of distressed properties and mortgage loans and has the objective of repositioning both the directly-owned properties and the properties underlying the mortgage loans to enhance their value (see Note 3). The Company acquired the membership interests for $2.1 million. The agreement requires the Company to contribute 3% to 5% (depending on the asset agreement) of the total funding required for each asset acquisition on a monthly basis. RREM, an affiliate of Resource America, acts as asset manager of the venture and receives a monthly asset management fee equal to 1% of the combined investment calculated as of the last calendar day of the month. For the three and six months ended June 30, 2013, the Company paid RREM management fees of $8,000 and $16,000, respectively. For the three and six months ended June 30, 2012, the Company paid RREM management fees of $12,000 and $24,000, respectively. For the three and six months ended June 30, 2013, the Company recorded losses of $101,000 and $214,000, respectively, which was recorded in equity in (losses) earnings of unconsolidated subsidiaries on the consolidated statement of income. For the three and six months ended June 30, 2012, the Company recorded losses of $486,000 and earnings of $585,000, respectively, which was recorded in equity in (losses) earnings of unconsolidated subsidiaries on the consolidated statement of income. The investment balance of $1.4 million and $2.3 million at June 30, 2013 and December 31, 2012, respectively, is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheet using the equity method.

The Company has a 100% interest valued at $1.5 million in the common shares (3% of the total equity) in two trusts, RCT I and RCT II and determined it was not the primary beneficiary of either trust. The Company records its investments in RCT I and RCT II’s common shares of $774,000 each as investments in unconsolidated trusts using the cost method and records dividend income upon declaration by RCT I and RCT II. For the three and six months ended June 30, 2013 the Company recognized $602,000 and $1.2 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $48,000 and $95,000, respectively, of amortization of deferred debt issuance costs. For the three and six months ended June 30, 2012, the Company recognized $623,000 and $1.3 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $45,000 and $90,000, respectively, of amortization of deferred debt issuance costs. The Company will continuously reassess whether it should be deemed to be the primary beneficiary of the trusts.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

NOTE 10 –FINANCING RECEIVABLES

The following tables show the allowance for loan losses and recorded investments in loans for the years indicated (in thousands):

	Commercial Real Estate Loans	Bank Loans	Loans Receivable-Related Party	Total
June 30, 2013:				
Allowance for Loan Losses:				
Allowance for losses at January 1, 2013	$7,986	$9,705	$ —	$17,691
Provision (benefit) for loan loss	1,948	(2,148)	—	(200)
Loans charged-off	(90)	(3,270)	—	(3,360)
Allowance for losses at June 30, 2013	$9,844	$4,287	$ —	$14,131
Ending balance:				
Individually evaluated for impairment	$4,000	$3,351	$ —	$7,351
Collectively evaluated for impairment	$5,844	$936	$ —	$6,780
Loans acquired with deteriorated credit quality	$—	$—	$ —	$—
Loans:				
Ending balance:				
Individually evaluated for impairment	$184,383	$12,564	$ 7,962	$204,909
Collectively evaluated for impairment	$507,599	$988,323	$ —	$1,495,922
Loans acquired with deteriorated credit quality	$—	$—	$ —	$—
December 31, 2012:				
Allowance for Loan Losses:				
Allowance for losses at January 1, 2012	$24,221	$3,297	$ —	$27,518
Provision for loan loss	5,225	11,593	—	16,818
Loans charged-off	(21,460)	(5,185)	—	(26,645)
Allowance for losses at December 31, 2012	$7,986	$9,705	$ —	$17,691
Ending balance:				
Individually evaluated for impairment	$2,142	$3,236	$ —	$5,378
Collectively evaluated for impairment	$5,844	$6,469	$ —	$12,313
Loans acquired with deteriorated credit quality	$—	$—	$ —	$—
Loans:				
Ending balance:				
Individually evaluated for impairment	$177,055	$4,688	$ 8,324	$190,067
Collectively evaluated for impairment	$489,996	$1,187,875	$ —	$1,677,871
Loans acquired with deteriorated credit quality	$—	$751	$ —	$751

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Credit quality indicators

Bank Loans

The Company uses a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing the Company's highest rating and 5 representing its lowest rating. The Company also designates loans that are sold after the period end as held for sale at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. The Company considers metrics such as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics in grading its bank loans.

Credit risk profiles of bank loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of June 30, 2013							
Bank loans	$888,643	$45,933	$30,731	$2,889	$12,564	$20,127	$1,000,887
As of December 31, 2012							
Bank loans	$1,095,148	$33,677	$27,837	$16,318	$5,440	$14,894	$1,193,314

All of the Company's bank loans are performing with the exception of five loans with an amortized cost of $12.6 million as of June 30, 2013, two of which defaulted during the three months ended June 30, 2013. As of December 31, 2012, all of the Company's bank loans were performing with the exception of five loans with an amortized cost of $5.4 million, one of which defaulted as of December 31, 2012, three of which defaulted as of March 31, 2012 (including a loan acquired with deteriorated credit quality as a result of the acquisition of Whitney CLO I), and one of which defaulted on December 31, 2011.

Commercial Real Estate Loans

The Company uses a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing the Company's highest rating and 4 representing its lowest rating. The Company also designates loans that are sold after the period end at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. In addition to the underlying performance of the loan collateral, the Company considers metrics such as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms in grading its commercial real estate loans.

Credit risk profiles of commercial real estate loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of June 30, 2013						
Whole loans	$553,333	$—	$55,374	$—	$—	$608,707
B notes	16,265	—	—	—	—	16,265
Mezzanine loans	28,938	—	38,072	—	—	67,010
	$598,536	$—	$93,446	$—	$—	$691,982
As of December 31, 2012						
Whole loans	$427,456	$—	$106,482	$—	$34,000	$567,938

B notes	16,327	—	—	—	—	16,327
Mezzanine loans	38,296	—	44,490	—	—	82,786
	$482,079	$—	$150,972	$—	$34,000	$667,051

All of the Company’s commercial real estate loans were performing as of June 30, 2013 and December 31, 2012.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Loan Portfolios Aging Analysis
The following table shows the loan portfolio aging analysis as of the dates indicated at cost basis (in thousands):

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
June 30, 2013:							
Whole loans	$—	$—	$—	$—	$608,707	$608,707	$—
B notes	—	—	—	—	16,265	16,265	—
Mezzanine loans	—	—	—	—	67,010	67,010	—
Bank loans	9,749	—	2,815	12,564	988,323	1,000,887	—
Loans receivable-related party	—	—	—	—	7,962	7,962	—
Total loans	$9,749	$—	$2,815	$12,564	$1,688,267	$1,700,831	$—
December 31, 2012:							
Whole loans	$—	$—	$—	$—	$567,938	$567,938	$—
B notes	—	—	—	—	16,327	16,327	—
Mezzanine loans	—	—	—	—	82,786	82,786	—
Bank loans	1,549	—	3,891	5,440	1,187,874	1,193,314	—
Loans receivable-related party	—	—	—	—	8,324	8,324	—
Total loans	$1,549	$—	$3,891	$5,440	$1,863,249	$1,868,689	$—

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Impaired Loans

The following tables show impaired loans in the categories indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
June 30, 2013:					
Loans without a specific valuation allowance:					
Whole loans	$129,546	$129,546	$—	$117,221	$5,575
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$38,072	$38,072	$—	$38,072	$986
Bank loans	$—	$—	$—	$—	$—
Loans receivable - related party	$6,061	$6,061	$—	$—	$348
Loans with a specific valuation allowance:					
Whole loans	$25,000	$25,000	$(4,000)	$23,333	$1,442
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$—	$—	$—	$—	$—
Bank loans	$12,564	$12,564	$(3,351)	$—	$—
Loans receivable - related party	$—	$—	$—	$—	$—
Total:					
Whole loans	$154,546	$154,546	$(4,000)	$140,554	$7,017
B notes	—	—	—	—	—
Mezzanine loans	38,072	38,072	—	38,072	986
Bank loans	12,564	12,564	(3,351)	—	—
Loans receivable - related party	6,061	6,061	—	—	348
	$211,243	$211,243	$(7,351)	$178,626	$8,351
December 31, 2012:					
Loans without a specific valuation allowance:					
Whole loans	$115,841	$115,841	$—	$114,682	$3,436
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$38,072	$38,072	$—	$38,072	$367
Bank loans	$—	$—	$—	$—	$—
Loans receivable - related party	$6,754	$6,754	$—	$—	$851
Loans with a specific valuation allowance:					
Whole loans	$23,142	$23,142	$(2,142)	$22,576	$801
B notes	$—	$—	$—	$—	$—

Mezzanine loans	$—	$—	$—	$—	$—
Bank loans	$5,440	$5,440	$(3,236)	$—	$—
Loans receivable - related party	$—	$—	$—	$—	$—
Total:					
Whole loans	$138,983	$138,983	$(2,142)	$137,258	$4,237
B notes	—	—	—	—	—
Mezzanine loans	38,072	38,072	—	38,072	367
Bank loans	5,440	5,440	(3,236)	—	—
Loans receivable - related party	6,754	6,754	—	—	851
	$189,249	$189,249	$(5,378)	$175,330	$5,455

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Troubled- Debt Restructurings

The following tables show troubled-debt restructurings in the Company's loan portfolio (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Three Months Ended June 30, 2013:			
Whole loans	—	$—	$—
B notes	—	—	—
Mezzanine loans	—	—	—
Bank loans	—	—	—
Loans receivable - related party	—	—	—
Total loans	—	$—	$—
Three Months Ended June 30, 2012:			
Whole loans	—	$—	$—
B notes	—	—	—
Mezzanine loans	—	—	—
Bank loans	—	—	—
Loans receivable	—	—	—
Loans receivable - related party	—	—	—
Total loans	—	$—	$—
Six Months Ended June 30, 2013:			
Whole loans	2	$56,328	$56,328
B notes	—	—	—
Mezzanine loans	—	—	—
Bank loans	—	—	—
Loans receivable - related party	1	6,592	6,592
Total loans	3	$62,920	$62,920
Six Months Ended June 30, 2012:			
Whole loans	3	$92,912	$76,597
B notes	—	—	—
Mezzanine loans	—	—	—
Bank loans	—	—	—
Loans receivable	—	—	—
Loans receivable - related party	1	7,797	7,797
Total loans	4	$100,709	$84,394

As of June 30, 2013 and December 31, 2012, there were no troubled-debt restructurings that subsequently defaulted.

(Back to Index)

33

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

NOTE 11 – INTANGIBLE ASSETS

Intangible assets represent identifiable intangible assets acquired as a result of the Company's acquisition of RCAM in February 2011, its conversion of loans to investments in real estate in June 2011, and the acquisition of real estate in August 2011. The Company amortizes identified intangible assets to expense over their estimated lives or period of benefit using the straight-line method. The Company evaluates intangible assets for impairment as events and circumstances change. In October 2012, the Company purchased 66.6% of preferred equity and began consolidating Whitney CLO I, one of the RCAM CLOs (see Note 3). As a result of this transaction and the consolidation of Whitney CLO I, the Company wrote-off the unamortized balance of $2.6 million, the intangible asset associated with this CLO, which was recorded in gain/(loss) on consolidation in the consolidated statement of income during the year ended December 31, 2012. In May 2013, the Company purchased additional equity, increasing its ownership percentage to 68.3%. Due to a 2013 event whereby a second CLO liquidated, the Company accelerated the amortization of the remaining balance of its intangible asset and recorded a $657,000 charge to depreciation and amortization on the consolidated statement of income during the year ended December 31, 2012. The Company expects to record amortization expense on intangible assets of approximately $1.9 million for the year ended December 31, 2013, and $1.8 million for the years ended December 31, 2014, 2015, 2016 and 2017. The weighted average amortization period was 8.2 years and 8.7 years at June 30, 2013 and December 31, 2012, respectively and the accumulated amortization was $11.5 million and $10.5 million at June 30, 2013 and December 31, 2012, respectively.

The following table summarizes intangible assets at June 30, 2013 and December 31, 2012 (in thousands).

	Beginning Balance	Accumulated Amortization	Net Asset
June 30, 2013:			
Investment in RCAM	$21,213	$(9,072)	$12,141
Investments in real estate:			
In-place leases	2,461	(2,408)	53
Above (below) market leases	29	(27)	2
	2,490	(2,435)	55
Total intangible assets	$23,703	$(11,507)	$12,196
December 31, 2012:			
Investment in RCAM	$21,213	$(8,108)	$13,105
Investments in real estate:			
In-place leases	2,461	(2,379)	82
Above (below) market leases	29	(24)	5
	2,490	(2,403)	87
Total intangible assets	$23,703	$(10,511)	$13,192

For the three and six months ended June 30, 2013, the Company recognized $1.5 million and $2.9 million, respectively of fee income related to the investment in RCAM. For the three and six months ended June 30, 2012, the Company recognized $1.8 million and $3.7 million, respectively of fee income related to the investment in RCAM.

NOTE 12 – BORROWINGS

The Company historically has financed the acquisition of its investments, including investment securities, loans and lease receivables, through the use of secured and unsecured borrowings in the form of CDOs, securitized notes, repurchase agreements, secured term facilities, warehouse facilities and trust preferred securities issuances. Certain information with respect to the Company’s borrowings at June 30, 2013 and December 31, 2012 is summarized in the following table (in thousands, except percentages):

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
June 30, 2013:				
RREF CDO 2006-1 Senior Notes (1)	$115,294	1.64%	33.1 years	$167,682
RREF CDO 2007-1 Senior Notes (2)	181,062	0.86%	33.3 years	236,129
Apidos CDO I Senior Notes (3)	126,007	1.34%	4.1 years	142,748
Apidos CDO III Senior Notes (4)	158,457	0.85%	7.0 years	170,079
Apidos Cinco CDO Senior Notes (5)	320,848	0.78%	6.8 years	342,487
Apidos CLO VIII Senior Notes (6)	302,250	2.13%	8.3 years	349,607
Apidos CLO VIII Securitized Borrowings (11)	19,250	16.45%	8.3 years	—
Whitney CLO I Senior Notes(10)	101,982	2.47%	3.7 years	121,026
Whitney CLO I Securitized Borrowings (11)	5,467	9.14%	3.7 years	—
Unsecured Junior Subordinated Debentures (7)	50,908	4.23%	23.2 years	—
Repurchase Agreements (8)	163,785	2.19%	18 days	224,957
Mortgage Payable (9)	13,600	4.14%	5.1 years	18,100
Total	$1,558,910	1.78%	11.9 years	$1,772,815
December 31, 2012:				
RREF CDO 2006-1 Senior Notes (1)	$145,664	1.42%	33.6 years	$295,759
RREF CDO 2007-1 Senior Notes (2)	225,983	0.81%	33.8 years	292,980
Apidos CDO I Senior Notes (3)	202,969	1.07%	4.6 years	217,745
Apidos CDO III Senior Notes (4)	221,304	0.80%	7.5 years	232,655
Apidos Cinco CDO Senior Notes (5)	320,550	0.82%	7.4 years	344,105
Apidos CLO VIII Senior Notes (6)	300,951	2.16%	8.8 years	351,014
Apidos CLO VIII Securitized Borrowings (11)	20,047	15.27%	8.8 years	—
Whitney CLO I Senior Notes(10)	171,555	1.82%	4.2 years	191,704
Whitney CLO I Securitized Borrowings (11)	5,860	9.50%	4.2 years	—
Unsecured Junior Subordinated Debentures (7)	50,814	4.26%	23.7 years	—
Repurchase Agreements (8)	106,303	2.28%	18 days	145,234
Mortgage Payable (9)	13,600	4.17%	5.6 years	18,100
Total	$1,785,600	1.62%	12.5 years	$2,089,296

(1) Amount represents principal outstanding of $115.7 million and $146.4 million less unamortized issuance costs of $409,000 and $728,000 as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in August 2006.

(2) Amount represents principal outstanding of $182.0 million and $227.4 million less unamortized issuance costs of $909,000 and $1.4 million as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in June 2007.

(3) Amount represents principal outstanding of $126.0 million and $203.2 million less unamortized issuance costs of $43,000 and $274,000 as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in

August 2005.

(4) Amount represents principal outstanding of $158.8 million and $222.0 million less unamortized issuance costs of $306,000 and $659,000 as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in May 2006.

(5) Amount represents principal outstanding of $322.0 million and $322.0 million less unamortized issuance costs of $1.2 million and $1.5 million as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in May 2007.

(6) Amount represents principal outstanding of $317.6 million and $317.6 million, less unamortized issuance costs of $4.3 million and $4.7 million, and less unamortized discounts of $11.0 million and $11.9 million as of June 30, 2013 and December 31, 2012, respectively. This CDO transaction closed in October 2011.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

(7) Amount represents junior subordinated debentures issued to RCT I and RCT II in May 2006 and September 2006, respectively.

(8) Amount represents principal outstanding of $48.7 million and $47.5 million less unamortized deferred debt costs of $82,000 and $23,000 and accrued interest costs of $28,000 and $37,000 related to CMBS repurchase facilities as of June 30, 2013 and December 31, 2012, respectively, and principal outstanding of $116.1 million and $59.1 million less unamortized deferred debt costs of $1.1 million and $348,000 and accrued interest costs of $143,000 and $79,000 related to CRE repurchase facilities as of June 30, 2013 and December 31, 2012. Amount does not reflect CMBS repurchase agreement borrowings that are components of Linked Transactions. At June 30, 2013 and December 31, 2012, the Company had repurchase agreements of $66.6 million and $20.4 million, respectively, that were linked to CMBS purchases and accounted for as Linked Transactions, and, as such, the linked repurchase agreements are not included in the above table. (See Note 20).

(9) Amount represents principal outstanding of $13.6 million as of June 30, 2013 and December 31, 2012, respectively. This real estate transaction closed in August 2011. The asset has been reclassified to property available-for-sale and is held at its amortized cost of $19.6 million on the consolidated balance sheet at June 30, 2013.

(10) Amount represents principal outstanding of $103.7 million and $174.1 million less unamortized discounts of $1.7 million and $2.5 million as of June 30, 2013 and as of December 31, 2012 . In October 2012 the Company purchased a $20.9 million equity interest in Whitney CLO I which represents 66.6% of the outstanding preference shares. The transaction gave the Company a controlling interest in the CLO. In May 2013 the Company purchased $550,000 additional equity interest in Whitney CLO I and now holds 68.3% of the outstanding preference shares.

(11) The securitized borrowings are collateralized by the same assets as the Apidos CLO VIII Senior Notes and the Whitney CLO I Senior Notes, respectively.

Collateralized Debt Obligations

Resource Real Estate Funding CDO 2007-1

In June 2007, the Company closed RREF CDO 2007-1, a $500.0 million CDO transaction that provided financing for commercial real estate loans and commercial mortgage-backed securities. The investments held by RREF CDO 2007-1 collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. RREF CDO 2007-1 issued a total of $265.6 million of senior notes at par to unrelated investors. RCC Real Estate purchased 100% of the class H senior notes (rated BBB+:Fitch), class K senior notes (rated BBB-:Fitch), class L senior notes (rated BB:Fitch) and class M senior notes (rated B: Fitch) for $68.0 million. In addition, Resource Real Estate Funding 2007-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $41.3 million equity interest representing 100% of the outstanding preference shares. The senior notes purchased by RCC Real Estate are subordinated in right of payment to all other senior notes issued by RREF CDO 2007-1 but are senior in right of payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by RREF CDO 2007-1. The reinvestment period for RREF 2007-1 ended in June 2012 which results in the sequential pay down of notes as underlying collateral matures and pays down. As of June 30, 2013, $60.0 million of Class A-1 notes have been paid down.

The senior notes issued to investors by RREF CDO 2007-1 consist of the following classes: (i) $180.0 million of class A-1 notes bearing interest at one-month LIBOR plus 0.28%; (ii) $50.0 million of unissued class A-1R notes, which allow the CDO to fund future funding obligations under the existing whole loan participations that have future funding commitments; the undrawn balance of the class A-1R notes accrued a commitment fee at a rate per annum equal to

0.18%, the drawn balance bore interest at one-month LIBOR plus 0.32%; (iii) $57.5 million of class A-2 notes bearing interest at one-month LIBOR plus 0.46%; (iv) $22.5 million of class B notes bearing interest at one-month LIBOR plus 0.80%; (v) $7.0 million of class C notes bearing interest at a fixed rate of 6.423%; (vi) $26.8 million of class D notes bearing interest at one-month LIBOR plus 0.95%; (vii) $11.9 million of class E notes bearing interest at one-month LIBOR plus 1.15%; (viii) $11.9 million of class F notes bearing interest at one-month LIBOR plus 1.30%; (ix) $11.3 million of class G notes bearing interest at one-month LIBOR plus 1.55%; (x) $11.3 million of class H notes bearing interest at one-month LIBOR plus 2.30%; (xi) $11.3 million of class J notes bearing interest at one-month LIBOR plus 2.95%; (xii) $10.0 million of class K notes bearing interest at one-month LIBOR plus 3.25%; (xiii) $18.8 million of class L notes bearing interest at a fixed rate of 7.50% and (xiv) $28.8 million of class M notes bearing interest at a fixed rate of 8.50%. All of the notes issued mature in September 2046, although the Company has the right to call the notes anytime after July 2017 until maturity. The weighted average interest rate on all notes issued to outside investors and net of repurchased notes was 0.86% and 0.81% at June 30, 2013 and December 31, 2012, respectively.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

During the three and six months ended June 30, 2012 the Company repurchased $50.0 million of the Class A-1R notes in RREF CDO 2007-1 at a weighted average price of 90.00% to par which, after fees paid to an investment bank to finance the transaction and related expenses, resulting in a $3.6 million gain reported as a gain on the extinguishment of debt in the consolidated statements of income. During the three and six months ended June 30, 2013, the Company did not repurchase any notes.

As a result of the Company's ownership of senior notes, both the notes repurchased subsequent to closing and those retained at the CDO's closing eliminate in consolidation.

Resource Real Estate Funding CDO 2006-1

In August 2006, the Company closed RREF CDO 2006-1, a $345.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2006-1 collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. RREF CDO 2006-1 issued a total of $308.7 million of senior notes at par to investors of which RCC Real Estate purchased 100% of the class J senior notes (rated BB: Fitch) and class K senior notes (rated B:Fitch) for $43.1 million. In addition, Resource Real Estate Funding 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. The senior notes purchased by RCC Real Estate are subordinated in right of payment to all other senior notes issued by RREF CDO 2006-1 but are senior in right of payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by RREF CDO 2006-1. The reinvestment period for RREF 2006-1 ended in September 2011 which results in the sequential pay down of notes as underlying collateral matures and pays down. As of June 30, 2013, $76.9 million, respectively, of Class A-1 notes have been paid down.

The senior notes issued to investors by RREF CDO 2006-1 consist of the following classes: (i) $129.4 million of class A-1 notes bearing interest at one-month LIBOR plus 0.32%; (ii) $17.4 million of class A-2 notes bearing interest at one-month LIBOR plus 0.35%; (iii) $5.0 million of class A-2 notes bearing interest at a fixed rate of 5.842%; (iv) $6.9 million of class B notes bearing interest at one-month LIBOR plus 0.40%; (v) $20.7 million of class C notes bearing interest at one-month LIBOR plus 0.62%; (vi) $15.5 million of class D notes bearing interest at one-month LIBOR plus 0.80%; (vii) $20.7 million of class E notes bearing interest at one-month LIBOR plus 1.30%; (viii) $19.8 million of class F notes bearing interest at one-month LIBOR plus 1.60%; (ix) $17.3 million of class G notes bearing interest at one-month LIBOR plus 1.90%; (x) $12.9 million of class H notes bearing interest at one-month LIBOR plus 3.75%, (xi) $14.7 million of class J notes bearing interest at a fixed rate of 6.00% and (xii) $28.4 million of class K notes bearing interest at a fixed rate of 6.00%. All of the notes issued mature in August 2046, although the Company has the right to call the notes anytime after August 2016 until maturity. The weighted average interest rate on all notes issued to outside investors and net of repurchased notes was 1.64% and 1.42% at June 30, 2013 and December 31, 2012, respectively.

During the three and six months ended June 30, 2012, the Company repurchased $5.25 million of the Class A-1 notes and $4.0 million of the Class C notes in RREF CDO 2006-1 at a weighted average price of 82.48% to par which resulted in a 1.5 million gain reported as a gain on the extinguishment of debt in the consolidated statements of income. During the three and six months ended June 30, 2013, the Company did not repurchase any notes.

As a result of the Company's ownership of senior notes, both the notes repurchased subsequent to closing and those retained at the CDO's closing eliminate in consolidation.

Whitney CLO I

In February 2011, the Company acquired the rights to manage the assets held by Whitney CLO I. In October 2012, the Company purchased a $20.9 million preferred equity interest at a discount of 42.5% which represents 66.6% of the outstanding preference shares in Whitney CLO I. In May 2013 the Company purchased an additional $550,000 equity interest in Whitney CLO I and as of June 30, 2013 holds 68.3% of the outstanding preference shares. Based upon those purchases, the Company determined that it had a controlling interest and consolidated Whitney CLO I. The preferred equity interest is subordinated in right of payment to all other securities issued by Whitney CLO I.

(Back to Index)

The balance of senior notes issued to investors when the Company acquired a controlling interest in October 2012 were as follows: (i) $48.8 million of class A-1L notes bearing interest at LIBOR plus 0.32%; (ii) $26.5 million of class A-1LA notes bearing interest at LIBOR plus 0.29%; (iii) $36.5 million of class A-1LB notes bearing interest at LIBOR plus 0.45%; (iv) $19.75 million of class A-2F notes bearing interest at LIBOR plus 5.19%; (v) $15.0 million of class A-2L notes bearing interest at LIBOR plus 0.57%; (vi) $25.0 million of class A-3L notes bearing interest at LIBOR plus 1.05%; (vii) $23.5 million of class B-1LA notes bearing interest at LIBOR plus 2.1%; (viii) $14.36 million of class B-1LB notes bearing interest at LIBOR plus 1.0%. All of the notes issued mature on March 1, 2017. The Company has the right to call the notes anytime after March 1, 2009 until maturity in March 2017. The weighted average interest rate on all notes was 2.47% and 1.82% at June 30, 2013 and December 31, 2012, respectively. The reinvestment period for Whitney CLO I ended in March 2011 which results in the sequential pay down of notes as underlying collateral matures and pays down. Since October 2012 when the Company began consolidating Whitney CLO I, $46.2 million of Class A-1L, $26.5 million of Class A-1LA notes and $33.1 million of Class A-1LB notes have been paid down.

Apidos CLO VIII

In October 2011, the Company closed Apidos CLO VIII, a $350.0 million CLO transaction that provides financing for bank loans. The investments held by Apidos CLO VIII collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CLO VIII issued a total of $317.6 million of senior notes at a discount of 4.4% to investors and RCC Commercial purchased a $15.0 million interest representing 43% of the outstanding subordinated debt. The remaining 57% of subordinated debt is owned by unrelated third parties. The reinvestment period for Apidos CLO VIII will end in October 2014. The subordinated debt interest is subordinated in right of payment to all other securities issued by Apidos CLO VIII.

The senior notes issued to investors by Apidos CLO VIII consist of the following classes: (i) $231.2 million of class A-1 notes bearing interest at LIBOR plus 1.50%; (ii) $35.0 million of class A-2 notes bearing interest at LIBOR plus 2.00%; (iii) $17.3 million of class B-1 notes bearing interest at LIBOR plus 2.50%; (iv) $6.8 million of class B-2 notes bearing interest at LIBOR plus 2.50%; (v) $14.1 million of class C notes bearing interest at LIBOR plus 3.10% and (vi) $13.2 million of class D notes bearing interest at LIBOR plus 4.50%. All of the notes issued mature on October 17, 2021, although the Company has the right to call the notes anytime from October 17, 2013 until maturity. The weighted average interest rate on all notes was 2.13% and 2.16% at June 30, 2013 and December 31, 2012, respectively.

Apidos Cinco CDO

In May 2007, the Company closed Apidos Cinco CDO, a $350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos Cinco CDO collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos Cinco CDO issued a total of $322.0 million of senior notes at par to investors and RCC Commercial purchased a $28.0 million equity interest representing 100% of the outstanding preference shares. The reinvestment period for Apidos Cinco CDO will end in May 2014. The equity interest is subordinated in right of payment to all other securities issued by Apidos Cinco CDO.

The senior notes issued to investors by Apidos Cinco CDO consist of the following classes: (i) $37.5 million of class A-1 notes bearing interest at LIBOR plus 0.24%; (ii) $200.0 million of class A-2a notes bearing interest at LIBOR plus 0.23%; (iii) $22.5 million of class A-2b notes bearing interest at LIBOR plus 0.32%; (iv) $19.0 million of class A-3 notes bearing interest at LIBOR plus 0.42%; (v) $18.0 million of class B notes bearing interest at LIBOR plus 0.80%; (vi) $14.0 million of class C notes bearing interest at LIBOR plus 2.25% and (vii) $11.0 million of class D notes bearing interest at LIBOR plus 4.25%. All of the notes issued mature on May 14, 2020, although the Company has the right to call the notes anytime after May 14, 2011 until maturity. The weighted average interest rate on all notes was 0.78% and 0.82% at June 30, 2013 and December 31, 2012, respectively.

Apidos CDO III

In May 2006, the Company closed Apidos CDO III, a $285.5 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO III collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO III issued a total of $262.5 million of senior notes at par to investors and RCC Commercial purchased a $23.0 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO III.

(Back to Index)

(Back to Index)

The senior notes issued to investors by Apidos CDO III consist of the following classes: (i) $212.0 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $19.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.45%; (iii) $15.0 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $10.5 million of class C notes bearing interest at 3-month LIBOR plus 1.75%; and (v) $6.0 million of class D notes bearing interest at 3-month LIBOR plus 4.25%. All of the notes issued mature on September 12, 2020, although the Company has the right to call the notes anytime after September 12, 2011 until maturity. The weighted average interest rate on all notes was 0.85% and 0.80% at June 30, 2013 and December 31, 2012, respectively. The reinvestment period for Apidos CDO III ended in June 2012 which results in the sequential pay down of notes as underlying collateral matures and pays down. As of June 30, 2013, $103.7 million of Class A-1 notes have been paid down.

Apidos CDO I

In August 2005, the Company closed Apidos CDO I, a $350.0 million CDO transaction that provides financing for bank loans. The investments held by Apidos CDO I collateralize the debt it issued and, as a result, the investments are not available to the Company, its creditors or stockholders. Apidos CDO I issued a total of $321.5 million of senior notes at par to investors and RCC Commercial purchased a $28.5 million equity interest representing 100% of the outstanding preference shares. The equity interest is subordinated in right of payment to all other securities issued by Apidos CDO I.

The senior notes issued to investors by Apidos CDO I consist of the following classes: (i) $259.5 million of class A-1 notes bearing interest at 3-month LIBOR plus 0.26%; (ii) $15.0 million of class A-2 notes bearing interest at 3-month LIBOR plus 0.42%; (iii) $20.5 million of class B notes bearing interest at 3-month LIBOR plus 0.75%; (iv) $13.0 million of class C notes bearing interest at 3-month LIBOR plus 1.85%; and (v) $8.0 million of class D notes bearing interest at a fixed rate of 9.25%. All of the notes issued mature on July 27, 2017, although the Company has the right to call the notes anytime after July 27, 2010 until maturity. The weighted average interest rate on all notes was 1.34% and 1.07% and at June 30, 2013 and December 31, 2012, respectively. The reinvestment period for Apidos CDO I ended in July 2011 which results in the sequential pay down of notes as underlying collateral matures and pays down. As of June 30, 2013, $193.5 million of Class A-1 Notes have been paid down.

During the three and six months ended June 30, 2012, the Company repurchased $2.0 million of the Class B notes in Apidos CDO I at a weighted average price of 85.11% to par which resulted in a $298,000 gain reported as a gain on the extinguishment of debt in the consolidated statements of income. During the three and six months ended June 30, 2013, the Company did not repurchase any notes.

Unsecured Junior Subordinated Debentures

In May 2006 and September 2006, the Company formed RCT I and RCT II, respectively, for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although the Company owns 100% of the common securities of RCT I and RCT II, RCT I and RCT II are not consolidated into the Company's consolidated financial statements because the Company is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, the Company issued junior subordinated debentures to RCT I and RCT II of $25.8 million each, representing the Company's maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II are included in borrowings and are being amortized into interest expense in the consolidated statements of income using the effective yield method over a ten year period.

The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at June 30, 2013 were $310,000 and $330,000, respectively. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2012 were $358,000 and $377,000, respectively. The rates for RCT I and RCT II, at June 30, 2013, were 4.23% and 4.23%, respectively. The rates for RCT I and RCT II, at December 31, 2012, were 4.26% and 4.26%, respectively.

The rights of holders of common securities of RCT I and RCT II are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of RCT I and RCT II are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, RCT I will dissolve on May 25, 2041 and RCT II will dissolve on September 29, 2041. The junior subordinated debentures are the sole assets of RCT I and RCT II, mature on September 30, 2036 and October 30, 2036, respectively, and may be called at par by the Company any time after September 30, 2011 and October 30, 2011, respectively. The Company records its investments in RCT I and RCT II's common securities of $774,000 each as investments in unconsolidated trusts and records dividend income upon declaration by RCT I and RCT II.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Repurchase and Credit Facilities

CMBS – Term Repurchase Facility

In February 2011, the registrant's wholly-owned subsidiaries, RCC Commercial Inc. and RCC Real Estate, Inc.(collectively, the "RCC Subsidiaries"), entered into a master repurchase and securities contract (the “2011 Facility”) with Wells Fargo Bank, National Association (“Wells Fargo”). Under the 2011 Facility, from time to time, the parties may enter into transactions in which the RCC Subsidiaries and Wells Fargo agree to transfer from the RCC Subsidiaries to Wells Fargo all of their right, title and interest to certain commercial mortgage backed securities and other assets (the “Assets”) against the transfer of funds by Wells Fargo to the RCC Subsidiaries, with a simultaneous agreement by Wells Fargo to transfer back to the RCC Subsidiaries such Assets at a date certain or on demand, against the transfer of funds from the RCC Subsidiaries to Wells Fargo. The maximum amount of the Facility is $100.0 million which has a two year term with a one year option to extend, and an interest rate equal to the one-month LIBOR plus 1.00% plus a .25% initial structuring fee and a .25% extension fee upon exercise. On February 1, 2013, the Companies exercised the option to extend the 2011 Facility to January 31, 2014 and negotiated another one year option to extend to January 31, 2015. The RCC Subsidiaries may enter into interest rate swaps and cap agreements for securities whose average life exceeds two years to mitigate interest rate risk under the 2011 Facility.

The 2011 Facility contains customary events of default, including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, guarantor defaults, and the institution of bankruptcy or insolvency proceedings that remain unstayed. The remedies for such events of default are also customary for this type of transaction and include the acceleration of all obligations of the RCC Subsidiaries to repay the purchase price for purchased assets.

The 2011 Facility also contains margin call provisions relating to a decline in the market value of a security. Under these circumstances, Wells Fargo may require the RCC Subsidiaries to transfer cash in an amount sufficient to eliminate any margin deficit resulting from such a decline.

Under the terms of the 2011 Facility and pursuant to a guarantee agreement dated February 1, 2011 (the “ 2011 Guaranty”), the the Company agreed to unconditionally and irrevocably guarantee to Wells Fargo the prompt and complete payment and performance of (a) all payment obligations owing by the RCC Subsidiaries to Wells Fargo under or in connection with the Facility and any other governing agreements and any and all extensions, renewals, modifications, amendments or substitutions of the foregoing; (b) all expenses, including, without limitation, reasonable attorneys' fees and disbursements, that are incurred by Wells Fargo in the enforcement of any of the foregoing or any obligation of the registrant; and (c) any other obligations of the RCC Subsidiaries with respect to Wells Fargo under each of the governing documents. The 2011 Guaranty includes covenants that, among other things, limit the Company's leverage and debt service ratios and require maintenance of certain levels of cash and net worth. RCC Real Estate and RCC Commercial were in compliance with all debt covenants as of June 30, 2013.

At June 30, 2013, RCC Real Estate and RCC Commercial had borrowed $46.8 million (net of $82,000 of deferred debt issuance costs), all of which the RCC Subsidiaries had guaranteed. At June 30, 2013, borrowings under the repurchase agreement were secured by highly-rated CMBS with an estimated fair value of $53.7 million and a weighted average interest rate of one-month LIBOR plus 1.26%, or 1.45%. At December 31, 2012, RCC Real Estate had borrowed $42.5 million (net of $23,000 of deferred debt issuance costs), all of which the RCC Subsidiaries had guaranteed. At December 31, 2012, borrowings under the repurchase agreement were secured by highly-rated CMBS with an estimated fair value of $51.4 million and a weighted average interest rate of one-month LIBOR plus 1.30%, or 1.53%. At June 30, 2013 and December 31, 2012, the Company also had repurchase agreements of $12.3 million, with a weighted average interest rate of one-month LIBOR plus 1.38% or 1.58%, and $11.9 million, with a weighted average interest rate of one-month LIBOR plus 1.32% or 1.53% , respectively, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20). The borrowings under the repurchase agreement were secured by highly-rated CMBS with an estimated fair value of $15.2 million and $14.6 million as of June 30, 2013 and December 31, 2012, respectively.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following table shows information about the amount at risk under this facility (dollars in thousands):

	Amount at Risk [1]	Weighted Average Maturity in Days	Weighted Average Interest Rate	
June 30, 2013:				
Wells Fargo Bank, National Association.[2]	$9,722	18	1.45	%
December 31, 2012:				
Wells Fargo Bank, National Association.[2]	$10,722	18	1.53	%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

(2) $12.3 million and $12.2 million of linked repurchase agreement borrowings are being included as derivative instruments as of June 30, 2013 and December 31, 2012, respectively, (see Note 20).

CRE – Term Repurchase Facility

On February 27, 2012, RCC Real Estate entered into a master repurchase and securities agreement (the "2012 Facility") with Wells Fargo to finance the origination of commercial real estate loans. The 2012 facility had a maximum amount of $150.0 million and an initial 18 month term with two one year options to extend. The Company paid an origination fee of 37.5 basis points (0.375%). The Company guaranteed RCC Real Estate’s performance of its obligations under the 2012 Facility. On April 2, 2013, RCC Real Estate entered into an amendment which increased the size to $250.0 million and extended the current term of the 2012 Facility to February of 2015 and provides two additional one year extension options at RSO's discretion. RCC Real Estate paid an additional structuring fee of $101,000 and an extension fee of $938,000 in connection with the amendment and will amortize the additional fees over the term of the extension. At June 30, 2013, RCC Real Estate had borrowed $115.0 million (net of $1.1 million of deferred debt issuance costs), all of which the Company had guaranteed. At June 30, 2013, borrowings under the 2012 Facility were secured by several commercial real estate loans with an estimated fair value of $167.7 million and a weighted average interest rate of one-month LIBOR plus 2.46%, or 2.65%. At December 31, 2012, RCC Real Estate had borrowed $58.8 million (net of $348,000 of deferred debt issuance costs), all of which the Company had guaranteed. At December 31, 2012, borrowings under the 2012 Facility were secured by several commercial real estate loans with an estimated fair value of $85.4 million and a weighted average interest rate of one-month LIBOR plus 2.67%, or 2.88%.

This 2012 Facility contains customary events of default, including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, guarantor defaults, and the institution of bankruptcy or insolvency proceedings that remain unstayed. The remedies for such events of default are also customary for this type of transaction and include the acceleration of all obligations of the Companies to repay the purchase price for purchased assets.

The 2012 Facility also contains margin call provisions relating to a decline in the market value of an security. Under these circumstances, Wells Fargo may require the Company to transfer cash in an amount sufficient to eliminate any margin deficit resulting from such a decline.

Under the terms of the 2012 Facility and pursuant to a guarantee agreement dated February 27, 2012 (the “2012 Guaranty”), the Company agreed to unconditionally and irrevocably guarantee to Wells Fargo the prompt and complete payment and performance of (a) all payment obligations owing by the Companies to Wells Fargo under or in connection with the 2012 Facility and any other governing agreements and any and all extensions, renewals, modifications, amendments or substitutions of the foregoing; (b) all expenses, including, without limitation, reasonable attorneys' fees and disbursements, that are incurred by Wells Fargo in the enforcement of any of the foregoing or any obligation of the registrant; and (c) any other obligations of the Companies with respect to Wells Fargo under each of the governing documents. The 2012 Guaranty includes covenants that, among other things, limit the registrant's leverage and debt service ratios and require maintenance of certain levels of cash and net worth. RCC Real Estate was in compliance with all debt covenants as of June 30, 2013.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following table shows information about the amount at risk under the facility (dollars in thousands);

	Amount at Risk [(1)]	Weighted Average Maturity in Days	Weighted Average Interest Rate	
June 30, 2013:				
Wells Fargo	$52,221	18	2.65	%
December 31, 2012				
Wells Fargo	$26,332	18	2.88	%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

Short-Term Repurchase Agreements

On November 6, 2012, the Company entered into a master repurchase and securities agreement with JP Morgan Securities LLC to finance the origination of CMBS. There is no stated maximum amount of the facility and the repurchase agreement has no stated maturity with monthly resets of interest rates. At June 30, 2013, RCC Real Estate had borrowed $18.8 million, all of which the Company had guaranteed, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20). At June 30, 2013, borrowings under the repurchase agreement were secured by a CMBS bond with an estimated fair value of $26.4 million and a weighted average interest rate of one-month LIBOR plus 0.83%, or 1.03%. At December 31, 2012, RCC Real Estate had borrowed $4.7 million, all of which the Company had guaranteed, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20). At December 31, 2012, borrowings under the repurchase agreement were secured by a CMBS bond with an estimated fair value of $7.2 million and a weighted average interest rate of one-month LIBOR plus 0.80%, or 1.01%.

The following table shows information about the amount at risk under this facility (dollars in thousands);

	Amount at Risk [(1)]	Weighted Average Maturity in Days	Weighted Average Interest Rate	
June 30, 2013:				
JP Morgan Securities, LLC [(2)]	$7,716	29	1.03	%
December 31, 2012:				
JP Morgan Securities, LLC [(2)]	$2,544	11	1.01	%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

(2) $18.8 million and $4.7 million linked repurchase agreement borrowings are being included as derivative instruments as of June 30, 2013 and December 31, 2012. (See Note 20).

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On February 14, 2012, RCC Real Estate entered into a master repurchase and securities agreement with Wells Fargo Securities, LLC to finance the origination of CMBS. There is no stated maximum amount of the facility and the repurchase agreement has no stated maturity date with monthly resets of interest rates. The Company guaranteed RCC Real Estate's performance of its obligations under the repurchase agreement. At June 30, 2013, RCC Real Estate had borrowed $1.8 million, all of which the Company had guaranteed. At June 30, 2013, borrowings under the repurchase agreement were secured by one CMBS bond with an estimated fair value of $2.8 million and a weighted average interest rate of one-month LIBOR plus 0.90%, or 1.08%. At December 31, 2012, RCC Real Estate had borrowed $1.9 million, all of which the Company had guaranteed. At December 31, 2012, borrowings under the repurchase agreement were secured by one CMBS bond with an estimated fair value of $3.1 million and a weighted average interest rate of one-month LIBOR plus 0.01%, or 1.46%. At June 30, 2013 and December 31, 2012, the Company also had repurchase agreements of $23.1 million, with a weighted average interest rate of one-month LIBOR plus 1.02% or 1.21%, and $3.5 million, with a weighted average interest rate of one-month LIBOR plus 1.25% or 1.46% , respectively, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20).
The following table shows information about the amount at risk under this facility (dollars in thousands);

	Amount at Risk (1)	Weighted Average Maturity in Days	Weighted Average Interest Rate	
June 30, 2013:				
Wells Fargo Securities, LL C(2)	$9,048	28	1.08	%
December 31, 2012:				
Wells Fargo Securities, LLC (2)	$1,956	28	1.46	%

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.
(2) $23.1 million and $3.5 million of linked repurchase agreement borrowings are being included as derivative instruments as of June 30, 2013 and December 31, 2012. (See Note 20).

On March 8, 2005, RCC Real Estate entered into a master repurchase and securities agreement with Deutsche Bank Securities Inc. to finance the origination of CMBS and commercial real estate loans. There is no stated maximum amount of the facility and the repurchase agreement has an initial 12 month term with monthly resets of interest rates. The Company guaranteed RCC Real Estate's performance of its obligations under the repurchase agreement. At June 30, 2013, RCC Real Estate had borrowed $12.3 million, all of which the Company had guaranteed, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20). At June 30, 2013, borrowings under the repurchase agreement were secured by a CMBS bond with an estimated fair value of $18.9 million and a weighted average interest rate of one-month LIBOR plus 1.21%, or 1.40%. At December 31, 2012, RCC Real Estate had borrowed $3.1 million, all of which the Company had guaranteed, that were linked to CMBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the borrowings table (see Note 20). At December 31, 2012, borrowings under the repurchase agreement were secured by a CMBS bond with an estimated fair value of $5.1 million and a weighted average interest rate of one-month LIBOR plus 1.25%, or 1.46%.

The following table shows information about the amount at risk under this facility (dollars in thousands);

	Amount at Risk [(1)]	Weighted Average Maturity in Days	Weighted Average Interest Rate	
June 30, 2013:				
Deutsche Bank Securities, Inc.	$6,671	28	1.40	%
December 31, 2012				
Deutsche Bank Securities, Inc.	$2,069	7	1.46	%

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

(1) Equal to the estimated fair value of securities or loans sold, plus accrued interest income, minus the sum of repurchase agreement liabilities plus accrued interest expense.

Mortgage Payable

On August 1, 2011, the Company, through RCC Real Estate, purchased Whispertree Apartments, a 504 unit multi-family property located in Houston, Texas, for $18.1 million. The property was 95% occupied at acquisition. In conjunction with the purchase of the property, the Company entered into a seven year mortgage of $13.6 million with a lender. The mortgage bears interest at a rate of one-month LIBOR plus 3.95%. As of June 30, 2013 and December 31, 2012 the borrowing rate was 4.14% and 4.17%, respectively.

NOTE 13 – SHARE ISSUANCE AND REPURCHASE

In April 2013, the Company sold 18,687,500 shares of common stock in an underwritten public common stock follow-on offering, including 2,437,500 shares exercised through the underwriters' over-allotment option, at a price of $6.33 per share. The Company received net proceeds of approximately $114.6 million after payment of underwriting discounts and commissions of approximately $3.6 million and before other offering expenses of approximately $200,000.

On March 15, 2013, the Company and Resource Capital Manager entered into an At-the-Market Issuance Sales Agreement with MLV & Co, LLC ("MLV") to sell up to 1,500,000 shares of its 8.25% Series B Cumulative Redeemable Preferred Stock from time to time through an "at the market" equity offering program under which MLV will act as sales agent. During the three months ended June 30, 2013, the Company issued 821,473 shares at a weighted average offering price of $24.91. As of June 30, 2013, 1,072,767 shares have been issued under this agreement at a weighted average offering price of $24.93. This agreement superseded the November 19, 2012 agreement with MLV.

Under the previous agreement, MLV had agreed to sell up to 1,000,000 shares the Company's 8.25% Series B Cumulative Redeemable Preferred Stock from time to time. As of June 30, 2013, all shares under this agreement have been issued at a weighted average price of $24.77.

Under a dividend reinvestment plan authorized by the board of directors on March 21, 2013, the Company is authorized to issue up to 20.0 million shares of common stock. Under this plan, the Company issued 20,495 shares during the three months ended June 30, 2013 at a weighted-average net share price of $6.42 and received proceeds of $132,000 (net of costs). The Company had issued a total of 26,459 shares of common stock under this plan since inception. This plan superseded the February 2012 plan.

Under a dividend reinvestment plan authorized by the board of directors on February 16, 2012, the Company was authorized to issue up to 15,000,000 shares of common stock. Under this plan, the Company issued 2,899,708 shares in January 2013 and February 2013 at a weighted average share price of $6.20 per share. The Company issued a total of 13,095,754 million shares of common stock under this plan since inception.

NOTE 14 – SHARE-BASED COMPENSATION

The following table summarizes restricted common stock transactions:

	Non-Employee Directors	Non-Employees	Total
Unvested shares as of January 1, 2013	19,509	3,288,834	3,308,343
Issued	38,704	114,000	152,704
Vested	(19,509)	(428,133)	(447,642)
Forfeited	—	(2,190)	(2,190)
Unvested shares as of June 30, 2013	38,704	2,972,511	3,011,215

The Company is required to value any unvested shares of restricted common stock granted to non-employees at the current market price. The estimated fair value of the unvested shares of restricted stock granted during the six months ended June 30, 2013 and 2012, including the grant date fair value of shares issued to the Company's six non-employee directors, was $997,000 and $2.7 million, respectively.

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On February 1, 2013, March 8, 2013 March 12, 2013, and June 6, 2013, the Company issued 3,582, 13,572, 16,065, and 5,485 shares of restricted common stock, respectively, under its Amended and Restated 2007 Omnibus Equity Compensation Plan to the Company's non-employee directors as part of their annual compensation. These shares vest in full on the first anniversary of the date of grant.

On March 21, 2013, the Company issued 2,000 shares of restricted common stock under its Amended and Restated 2007 Omnibus Equity Compensation Plan. These restricted shares will vest 33.3% on March 21, 2014. The balance will vest 33.3% annually thereafter through March 21, 2016.

In connection with a grant of restricted common stock made on August 25, 2011, the Company agreed to issue up to 336,000 additional shares of common stock if certain loan origination performance thresholds are achieved by personnel from the Company's loan origination team. The performance criteria are measured at the end of three annual measurement periods beginning April 1, 2011. The agreement also provides dividend equivalent rights pursuant to which the dividends that would have been paid on the shares had they been issued on the date of grant will be paid at the end of each annual measurement period if the performance criteria are met. If the performance criteria are not met, the accrued dividends will be forfeited. As a consequence, the Company does not record the dividend equivalent rights until earned. On March 30, 2012, the second annual measurement period ended and 112,000 shares were earned on April 1, 2013. These shares will vest over the subsequent 18 months at the rate of one-sixth per quarter. In addition, at March 30, 2013, $168,000 of accrued dividend equivalent rights were earned. At June 30, 2013, there was an additional $212,800 of dividends payable upon achievement of the performance criteria. If earned, any future performance shares issued will vest over the subsequent 18 months at the rate of one-sixth per quarter.

The following table summarizes the status of the Company's unvested stock options as of June 30, 2013:

Unvested Options	Options	Weighted Average Grant Date Fair Value
Unvested at January 1, 2013	26,667	$6.40
Granted	—	
Vested	(13,333)	6.40
Forfeited	—	—
Unvested at June 30, 2013	13,334	$6.40

The following table summarizes the status of the Company's vested stock options as of June 30, 2013:

Vested Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Vested as of January 1, 2013	614,999	$14.80		
Vested	13,333	$6.40		
Exercised	—			
Forfeited	(1,000)	$15.00		
Vested at June 30, 2013	627,332	$14.62	2	$17

There were no options granted during the three and six months ended June 30, 2013 and 2012. The outstanding stock options have a weighted average remaining contractual term of two years.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

For the three and six months ended June 30, 2013 and 2012, the components of equity compensation expense were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Options granted to Manager and non-employees	$(4)	$(1)	$3	$1
Restricted shares granted to Manager and non-employees	2,102	1,113	5,652	1,951
Restricted shares granted to non-employee directors	57	28	91	56
Total equity compensation expense	$2,155	$1,140	$5,746	$2,008

During the six months ended June 30, 2013, the Manager received 110,639 shares as incentive compensation valued at $653,000 pursuant to the Management Agreement. During the three and six months ended June 30, 2012, the Manager received 28,252 shares as incentive compensation valued at $154,000 pursuant to the Management Agreement. The Manager did not receive any incentive management fee for the three months ended June 30, 2013 and the three months ended March 31, 2012. The incentive management fee is paid one quarter in arrears.

Apart from incentive compensation payable under the Management Agreement, the Company has established no formal criteria for equity awards as of June 30, 2013. All awards are discretionary in nature and subject to approval by the Compensation Committee.

NOTE 15 – EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings per share for the periods presented as follows (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Basic:				
Net income allocable to common shares	6,533	16,425	18,059	30,906
Weighted average number of shares outstanding	120,738,176	83,466,810	112,508,254	82,334,303
Basic net income per share	$0.05	$0.20	$0.16	$0.38
Diluted:				
Net income allocable to common shares	6,533	16,425	18,059	30,906
Weighted average number of shares outstanding	120,738,176	83,466,810	112,508,254	82,334,303
Additional shares due to assumed conversion of dilutive instruments	1,545,327	721,406	1,323,929	706,301
Adjusted weighted-average number of common shares outstanding	122,283,503	84,188,216	113,832,183	83,040,604
Diluted net income per share	$0.05	$0.20	$0.16	$0.37

Potentially dilutive shares relating to 640,666 options for the three and six months ended June 30, 2013 and 641,666 options for the three and six months ended June 30, 2012 were not included in the calculation of diluted net income per share because the effect was anti-dilutive.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table, which is presented gross of tax, presents the changes in each component of accumulated other comprehensive income for the six months ended June 30, 2013 (dollars in thousands):

	Net unrealized (loss) gain on derivatives	Net unrealized (loss) gain on securities, available-for-sale	Net unrealized (loss) gain
January 1, 2013	$(15,595)	$(11,483)	$(27,078)
Other comprehensive gain before reclassifications	1,982	9,922	11,904
Amounts reclassified from accumulated other comprehensive income	193	(5,125)	(4,932)
Net current-period other comprehensive income	2,175	4,797	6,972
June 30, 2013	$(13,420)	$(6,686)	$(20,106)

NOTE 17 – RELATED PARTY TRANSACTIONS

Relationship with Resource America and Certain of its Subsidiaries

Relationship with Resource America. At June 30, 2013, Resource America owned 2,781,403 shares, or 2.2%, of the Company's outstanding common stock. In addition, Resource America held 2,166 options to purchase common stock. The Company is managed by the Manager, which is an affiliate of Resource America, pursuant to a Management Agreement that provides for both base and incentive management fees. For the three and six months ended June 30, 2013, the Manager earned base management fees of approximately $3.0 million and $5.6 million, respectively, and no incentive management fees for the three and six months ended June 30, 2013. For the three and six months ended June 30, 2012, the Manager earned base management fees of approximately $1.9 million and $3.8 million, respectively, and incentive management fees of $1.8 million and $2.5 million, respectively. The Company also reimburses the Manager and Resource America for expenses, including the expense of employees of Resource America who perform legal, accounting, due diligence and other services that outside professionals or consultants would otherwise perform, and for the wages, salaries and benefits of several Resource America personnel dedicated to the Company's operations. For the three and six months ended June 30, 2013, the Company paid the Manager $955,000 and $1.8 million, respectively, as expense reimbursements. For the three and six months ended June 30, 2012, the Company paid the Manager $998,000 and $1.6 million, respectively, as expense reimbursements.

On November 24, 2010, the Company entered into an Investment Management Agreement with Resource Capital Markets, Inc. ("RCM"), a wholly-owned subsidiary of Resource America. The initial agreement provided that: (a) RCM may invest up to $5.0 million of the Company's funds, with the investable amount being adjusted by portfolio gains/(losses) and collections, and offset by expenses, taxes and realized management fees, and (b) RCM can earn a management fee in any year that the net profits earned exceed a preferred return. On June 17, 2011, the Company entered into a revised Investment Management Agreement with RCM which provided an additional $8.0 million of the Company's funds and established a management fee of 20% of the amount by which the net profits exceed the preferred return. RCM earned $266,000 in management fees during the first quarter of 2013 which was later reversed in the quarter ended June 30, 2013 due to unrealized losses recognized and the portfolio not exceeding a preferred return. During the three and six months ended June 30, 2012, RCM earned $722,000 and $1.5 million in management fees, respectively. The Company has reinvested gains from its activity and holds $12.3 million in fair market value of trading securities as of June 30, 2013, a decrease of $12.5 million from $24.8 million at fair market value as of December 31, 2012. In addition, the Company and RCM have established an escrow account that allocates the net profit or net losses of the portfolio on a yearly basis based on the net asset value of the account. During the three and six months ended June 30, 2013, RCM earned $0 and $35,000, respectively, as its share of the net profits as defined in the Investment Management Agreement. During the three and six months ended June 30, 2012, RCM earned $112,000 and $226,000, respectively, as its share of the net profits as defined in the Investment Management Agreement.

(Back to Index)

(Back to Index)

At June 30, 2013, the Company was indebted to the Manager for $1.4 million, comprised of base management fees of $1.0 million and expense reimbursements of $442,000. At December 31, 2012, the Company was indebted to the Manager for $3.8 million, comprised of base management fees of $833,000, incentive management fees of $2.6 million and expense reimbursements of $307,000. At June 30, 2013, the Company was indebted to RCM, under the Company's Investment Management Agreement for $111,000, comprised of expense reimbursements. At December 31, 2012, the Company was indebted to RCM under the Company's Investment Management Agreement for $4.3 million, comprised of $4.3 million of incentive management fees and $48,000 of expense reimbursements.

The Company had executed seven CDO transactions as of June 30, 2013 and December 31, 2012, which were structured for the Company by the Manager. Under the Management Agreement, the Manager was not separately compensated by the Company for executing these transactions and is not separately compensated for managing the CDO entities and their assets.

Relationship with LEAF Financial. LEAF Financial, a wholly-owned subsidiary of Resource America, originates and manages equipment leases and notes on behalf of the Company.

On March 5, 2010, the Company entered into agreements with Lease Equity Appreciation Fund II, L.P. ("LEAF II") (an equipment leasing partnership sponsored by LEAF Financial and of which a LEAF Financial subsidiary is the general partner), pursuant to which the Company provided and funded an $8.0 million credit facility to LEAF II. The credit facility initially had a one year term at 12% per year, payable quarterly, and was secured by all the assets of LEAF II including its entire ownership interest in LEAF II Receivables Funding. The Company received a 1% origination fee in connection with establishing the facility. The facility originally matured on March 3, 2011 and was extended until September 3, 2011 with a 1% extension fee paid on the outstanding loan balance. On June 3, 2011, the Company entered into an amendment to extend the maturity to February 15, 2012 and decrease the interest rate from 12% to 10% per annum resulting in a troubled-debt restructuring under current accounting guidance. On February 15, 2012, the credit facility was further amended to extend the maturity to February 15, 2013 with a 1% extension fee accrued and added to the amount outstanding. On January 11, 2013, the Company entered into another amendment to extend the maturity to February 15, 2014 with an additional 1% extension fee accrued and added to the amount outstanding. The loan is current and performing with balances outstanding at June 30, 2013 and December 31, 2012 of $6.1 million and $6.8 million, respectively.

On November 16, 2011, the Company, together with LEAF Financial and LCC, subsidiaries of Resource America, entered into the SPA with Eos Partners, L.P., a private investment firm, and its affiliates (see Note 9). In exchange for its prior interest in LCC, the Company received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly issued 8% Series B Redeemable Preferred Stock and 2,364 shares of newly issued Series D Redeemable Preferred Stock, collectively representing, on a fully-diluted basis, a 26.7% interest in LCC. On January 18, 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,682 shares of newly issued Series A-1 Preferred Stock for $3.7 million. During the second quarter of 2013, the Company entered into another stock purchase agreement with LCC to purchase 3,323 shares of newly issued Series E Preferred Stock for $3.3 million (see Note 9). The Series E Preferred Stock has priority over all other classes of preferred stock. The Company's fully-diluted interest in LCC assuming conversion is 27.5%. For the three and six months ended June 30, 2013, the Company recorded earnings of $304,000 and a loss of $32,000, respectively, which was recorded in equity in (losses) earnings of unconsolidated subsidiaries on the consolidated statements of income. For the three and six months ended June 30, 2012, the Company recorded a $1.3 million loss which was recorded in other expense on the consolidated statements of income. The Company's investment in LCC was valued at $40.0 million and $33.1 million as of June 30, 2013 and December 31, 2012, respectively.

In accordance with the SPA, the Company and Resource America have undertaken a contingent obligation with respect to the value of the equity on the balance sheet of LEAF Receivables Funding 3, a wholly-owned subsidiary of LCC which owns equipment, equipment leases and notes. To the extent that the value of the equity on the balance sheet of LEAF Receivables Funding 3 is less than approximately $18.7 million (the value of the equity of LEAF Receivables Funding 3 on the date it was contributed to LCC by the Company), as of the final testing date within 90 days of December 31, 2013, the Company and Resource America have agreed to be jointly and severally obligated to contribute cash to LCC to make up the deficit. The LRF3 equity as of March 31, 2013 was in excess of this commitment and, therefore, the Company was not required to record a liability with respect to this obligation.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Relationship with CVC Credit Partners. On April 17, 2012, Apidos Capital Management (“ACM”), a former subsidiary of Resource America, was sold to CVC Credit Partners, LLC (CVC Credit Partners), a joint venture entity in which Resource America owns a 33% interest. CVC Credit Partners manages internally and externally originated bank loan assets on the Company’s behalf. On February 24, 2011, a subsidiary of the Company purchased 100% of the ownership interests in Churchill Pacific Asset Management LLC ("CPAM") from Churchill Financial Holdings LLC for $22.5 million. CPAM subsequently changed its name to RCAM. Through RCAM, the Company is entitled to collect senior, subordinated and incentive fees related to five CLO holdings of approximately $1.9 billion in assets managed by RCAM. RCAM is assisted by CVC Credit Partners in managing the five CLOs. CVC Credit Partners is entitled to 10% of all subordinated fees and 50% of the incentive fees received by RCAM. For the three and six months ended June 30, 2013, CVC Credit Partners earned subordinated fees of $174,000 and $355,000, respectively. For the three and six months ended June 30, 2012, CVC Credit Partners earned subordinated fees of $203,000 and $414,000, respectively. In October 2012, the Company purchased 66.6% of the preferred equity in one of the RCAM CLOs. In May 2013, the Company purchased additional equity in this CLO, increasing its ownership percentage to 68.3%. On February 15, 2013, another RCAM-managed CLO elected to redeem its outstanding notes in whole.

In May 2013, the Company entered into a limited partnership agreement with CVC Global Credit Opportunities Fund, L.P., a Delaware limited partnership which generally invests in assets through a master-feeder fund structure ("the Master Fund"). The Company invested $10.0 million as of June 30, 2013. The General Partner of the Partnership and the Master Fund is CVC Global Credit Opportunities Fund GP, LLC, a Delaware limited liability company. The investment manager of the partnership and the Master Fund is CVC Credit Partners, LLC. CVC Capital Partners SICAV-FIS, S.A., a Luxembourg company, together with its affiliates, and Resource America, own a majority and a significant minority, respectively, of the investment manager. The fund will pay the investment manager a quarterly management fee in advance calculated at the rate of 1.5% annually based on the balance of each limited partner's capital account. The Company's management fee was waived upon entering the agreement given that the Company is a related party of CVC Credit Partners. The fund's investment balance of $10.1 million is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheet using the equity method.

Relationship with Resource Real Estate. Resource Real Estate, a subsidiary of Resource America, originates, finances and manages the Company’s commercial real estate loan portfolio, including whole loans, A notes, B notes, mezzanine loans, and investments in real estate. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At June 30, 2013 and December 31, 2012, the Company was indebted to Resource Real Estate for loan origination costs in connection with the Company's commercial real estate loan portfolio of $0 and $20,000, respectively.

On August 9, 2006, the Company, through its subsidiary, RCC Real Estate, originated a loan to Lynnfield Place, a multi-family apartment property, in the amount of $22.4 million. The loan was then purchased by RREF CDO 2006-1. The loan, which matures on May 9, 2018, carries an interest rate of LIBOR plus a spread of 3.50% with a LIBOR floor of 2.50%. On June 14, 2011, RCC Real Estate converted this loan, collateralized by a multi-family building, to equity. The loan was kept outstanding and continues to be used as collateral in RREF CDO 2006-1. Resource Real Estate Management, LLC (“RREM”), an affiliate of Resource America, was appointed as the asset manager as of August 1, 2011. RREM performs lease review and approval, debt service collection, loan workout, foreclosure, disposition and/or entitlements and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM is entitled to a monthly asset management fee equal to 4.0% of the gross receipts generated from the property. The Company incurred fees payable to RREM in the amounts of $34,000 and $69,000 during the three and six months ended June 30, 2013, respectively. The Company incurred fees payable to RREM in the amounts of $34,000 and $67,000 during the three and six months ended June 30, 2012, respectively.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On December 1, 2009, the Company purchased a membership interest in RRE VIP Borrower, LLC (an unconsolidated VIE that holds the Company's interests in a real estate joint venture) from Resource America at book value for $2.1 million. This joint venture, which is structured as a credit facility with Värde Investment Partners, LP acting as lender, finances the acquisition of distressed properties and mortgage loans and has the objective of repositioning both the directly-owned properties and the properties underlying the mortgage loans to enhance their value. The agreement requires the Company to contribute 3% to 5% (depending on the terms of the agreement pursuant to which the particular asset is being acquired) of the total funding required for each asset acquisition as needed up to a specified amount. RREM acts as asset manager of the venture and receives a monthly asset management fee equal to 1.0% of the combined investment calculated as of the last calendar day of the month. For the three and six months ended June 30, 2013, the Company paid RREM management fees of $8,000 and $16,000, respectively. For the three and six months ended June 30, 2012, the Company paid RREM management fees of $12,000 and $24,000, respectively. For the three and six months ended June 30, 2013, the Company recorded losses of $101,000 and $214,000, respectively. For the three and six months ended June 30, 2012, the Company recorded a loss of $486,000 and earnings of $585,000, respectively. Using the equity method of accounting, these losses and gains were recorded in equity in earnings of unconsolidated subsidiaries on the consolidated statement of income. The Company's investment balance of $1.4 million and $2.3 million at June 30, 2013 and December 31, 2012, respectively, is recorded as an investment in unconsolidated entities on the Company's consolidated balance sheets using the equity method.

On January 15, 2010, the Company loaned $2.0 million to Resource Capital Partners, Inc. ("RCP"), a wholly-owned subsidiary of Resource America, so that it could acquire a 5.0% limited partnership interest in Resource Real Estate Opportunity Fund, L.P. ("RRE Opportunity Fund"). RCP is the general partner of the RRE Opportunity Fund. The loan is secured by RCP's partnership interest in the RRE Opportunity Fund. The promissory note bears interest at a fixed rate of 8.0% per annum on the unpaid principal balance. In the event of default, interest will accrue and be payable at a rate of 5.0% in excess of the fixed rate. Interest is payable quarterly. Mandatory principal payments must also be made to the extent distributable cash or other proceeds from the partnership represent a return of RCP's capital. The loan matures on January 14, 2015, and RCP has options to extend the loan for two additional 12-month periods. No principal payments were made during the three and six months ended June 30, 2013 and 2012. The loan balance was $1.6 million at June 30, 2013 and December 31, 2012.

On June 21, 2011, the Company entered into a joint venture with an unaffiliated third party to form CR SLH Partners, L.P. ("SLH Partners") to purchase a defaulted promissory note secured by a mortgage on a multi-family apartment building. The Company purchased a 10% equity interest in the venture and also loaned SLH Partners $7.0 million to finance the project secured by a first mortgage lien on the property. On May 23, 2012, SLH Partners repaid the $7.0 million loan in its entirety. The loan had a maturity date of September 21, 2012 and bore interest at a fixed rate of 10.0% per annum on the unpaid principal balance, payable monthly. The Company received a commitment fee equal to 1.0% of the loan amount at the origination of the loan and received a $70,000 exit fee upon repayment. RREM was appointed as the asset manager of the venture. RREM performs lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM receives an annual asset management fee equal to 2.0% of the gross receipts generated from the property. The Company held a $1.1 million and $1.2 million preferred equity investment in SLH Partners as of June 30, 2013 and December 31, 2012, respectively.

On August 1, 2011, the Company, through RCC Real Estate, entered into an agreement to purchase Whispertree Apartments, a multi-family apartment building, for $18.1 million. RREM was appointed as asset manager. RREM performs lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM is entitled to a monthly asset management fee equal to the greater of 4.0% of the gross receipts generated from the property or $12,600. The Company incurred fees payable to RREM in the amounts of $50,000 and $97,000 during the three and six months ended June 30, 2013, respectively. The Company incurred fees payable to RREM in the amounts of $41,000 and $79,000 during the three and six months ended June 30, 2012, respectively. During the quarter ended June 30, 2013, the Company entered into a listing agreement for this property. This asset has been reclassified to property available-for-sale on the balance sheet.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On June 19, 2012, the Company entered into a joint venture with Värde Investment Partners, LP acting as lender, to purchase two condominium developments. The Company purchased a 7.5% equity interest in the venture. RREM was appointed as the asset manager of the venture to perform lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM receives an annual asset management fee equal to 1% of outstanding contributions. The Company incurred fees payable to RREM of $10,000 and $26,000 during the three and six months ended June 30, 2013. There were no such fees for the three and six months ended June 30, 2012. The Company's investment in the joint venture at June 30, 2013 and December 31, 2012 was $569,000 and $526,000, respectively. Using the equity method of accounting, the Company recognized equity in earnings related to this investment of $19,000 and $43,000 for the three and six months ended June 30, 2013, respectively. No such income was recorded for the three and six months ended June 30, 2012.

Relationship with The Bancorp. The Bancorp, Inc. (Nasdaq: TBBK), or TBBK, is a bank holding company that was organized in 2000 with Resource America's participation. Mr. Daniel G. Cohen, or Mr. D. Cohen, is the chairman of the board and Mrs. Betsy Z. Cohen, or Mrs. B. Cohen, is the Chief Executive Officer of TBBK and its subsidiary bank. Mrs. B. Cohen is the wife of Mr. E. Cohen, and Mr. E. Cohen and Mrs. B. Cohen are the parents of Messrs. J. Cohen, our President and chief executive officer, and D. Cohen. Walter Beach, a director of TBBK since 1999, has also served as a director of the Company since March 2005. On July 7, 2011, the Company and RCC Real Estate entered into a $10.0 million revolving credit facility with Bancorp. The note matured on June 30, 2012 and was not renewed. There were no outstanding borrowings as of June 30, 2013 or December 31, 2012.

Relationship with Law Firm. Until 1996, Edward E. Cohen, a director who was the Company's Chairman from its inception until November 2009, was of counsel to Ledgewood, P.C., a law firm. In addition, one of the Company's executive officers, Jeffrey F. Brotman, was employed by Ledgewood until 2007. Mr. E. Cohen receives certain debt service payments from Ledgewood related to the termination of his affiliation with Ledgewood and its redemption of his interest in the firm. Mr. Brotman also receives certain debt service payments from Ledgewood related to the termination of his affiliation with the firm. For the three and six months ended June 30, 2013, the Company paid Ledgewood $40,000 and $86,000, respectively, in connection with legal services rendered to the Company as compared to $83,000 and $116,000 for the three and six months ended June 30, 2012, respectively.

NOTE 18 – DISTRIBUTIONS

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order not to be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as provisions for loan and lease losses and depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow to make sufficient distribution payments.

On June 14, 2013, the Company declared a quarterly distribution of $0.20 per share of common stock or $25.4 million in the aggregate, which was paid on July 26, 2013, to stockholders of record as of June 28, 2013.

On June 18, 2013, the Company declared distributions totaling $359,000 or $0.53 per share to its Series A Preferred share stockholders, declared on June 18, 2013 and paid on July 30, 2013 to its preferred share stockholders of record as of July 1, 2013.

On June 18, 2013, the Company declared distributions totaling $1.6 million or $0.52 per share to its Series B Preferred share stockholders, declared on June 18, 2013 and paid on July 30, 2013 to its preferred share stockholders of record as of July 1, 2013.
On March 15, 2013, the Company declared a quarterly distribution of $0.20 per share of common stock or $21.6 million in the aggregate, which was paid on April 26, 2013, to stockholders of record as of March 28, 2013.
On March 18, 2013, the Company declared distributions totaling $359,000 or $0.53 per share to its Series A Preferred share stockholders, declared on March 18, 2013 and paid on April 30, 2013 to its preferred share stockholders of record as of April 1, 2013.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

On March 18, 2013, the Company declared distributions totaling $1.2 million or $0.52 per share to its Series B Preferred share stockholders, declared on March 18, 2013 and paid on April 30, 2013 to its preferred share stockholders of record as of April 1, 2013.

NOTE 19 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In analyzing the fair value of its investments accounted for on a fair value basis, the Company follows the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company determines fair value based on quoted prices when available or, if quoted prices are not available, through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The hierarchy followed defines three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter; depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Company expects that changes in classifications between levels will be rare.

Certain assets and liabilities are measured at fair value on a recurring basis. The following is a discussion of these assets and liabilities as well as the valuation techniques applied to each for fair value measurement.

The Company reports its investment securities available-for-sale at fair value. To determine fair value, the Company uses a dealer quote 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.

The Company reports its investment securities, trading at fair value, based on an independent third-party valuation. The Company evaluates the reasonableness of the valuation it receives by using a dealer quote. If there is a material difference between the value indicated by the third party and a quote the Company receives, the Company will evaluate the difference. Any changes in fair value are recorded on the Company's results of operations as net unrealized gain on investment securities, trading.

The CMBS underlying the Company's Linked Transactions are valued using the same techniques as those used for the Company's other CMBS. The value of the underlying CMBS is then netted against the carrying amount (which approximates fair value) of the repurchase agreement borrowing at the valuation date. The fair value of Linked Transactions also includes accrued interest receivable on the CMBS and accrued interest payable on the underlying repurchase agreement borrowings. The Company’s Linked Transactions are classified as Level 2 or Level 3 in the fair value hierarchy.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

Derivatives (interest rate swaps and interest rate caps), both assets and liabilities, are reported at fair value, and are valued by a third-party pricing agent using an income approach with models that use, as their primary inputs, readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit factors and volatility factors. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company assesses the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and, if material, categorizes those derivatives within Level 3 of the fair value hierarchy.

The following table presents information about the Company’s assets (including derivatives that are presented net) measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as follows (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2013:				
Assets:				
Investment securities, trading	$—	$—	$12,266	$12,266
Investment securities available-for-sale	12,775	110,924	111,309	235,008
CMBS - linked transactions	—	9,517	15,764	25,281
Total assets at fair value	$12,775	$120,441	$139,339	$272,555
Liabilities:				
Derivatives (net)	$—	$469	$12,236	$12,705
Total liabilities at fair value	$—	$469	$12,236	$12,705
December 31, 2012:				
Assets:				
Investment securities, trading	$—	$—	$24,843	$24,843
Investment securities available-for-sale	9,757	132,561	89,272	231,590
CMBS - linked transactions	—	4,802	2,033	6,835
Total assets at fair value	$9,757	$137,363	$116,148	$263,268
Liabilities:				
Derivatives (net)	$—	$610	$14,077	$14,687
Total liabilities at fair value	$—	$610	$14,077	$14,687

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following table presents additional information about assets which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs (in thousands):

	Level 3
Beginning balance, January 1, 2013	$116,148
Total gains or losses (realized/unrealized):	
Included in earnings	8,385
Purchases	62,315
Sales	(30,841)
Paydowns	(14,013)
Unrealized gains (losses) – included in accumulated other comprehensive income	(2,655)
Transfers from level 2	—
Ending balance, June 30, 2013	$139,339

The following table presents additional information about liabilities which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs (in thousands):

	Level 3
Beginning balance, January 1, 2013	$14,077
Unrealized losses – included in accumulated other comprehensive income	(1,841)
Ending balance, June 30, 2013	$12,236

The Company had $535,000 and $556,000 of losses included in earnings due to the other-than-temporary impairment charges of 13 assets that were traded at losses during each of the three and six months ended June 30, 2013, respectively. The Company had $32,000 and $171,000 of impairment losses included in earnings due to other-than-temporary impairment charges on 1 and 2 securities during the three and six months ended June 30, 2012, respectively. These losses are included in the consolidated statements of income as net impairment losses recognized in earnings.

Loans held for sale consist of bank loans and commercial real estate loans (“CRE loans”) identified for sale due to credit concerns. Interest on loans held for sale is recognized according to the contractual terms of the loan and included in interest income on loans. The fair value of bank loans held for sale and impaired bank loans is based on what secondary markets are currently offering for these loans. As such, the Company classifies these loans as nonrecurring Level 2. For the Company’s CRE loans where there is no primary market, fair value is measured using discounted cash flow analysis and other valuation techniques and these loans are classified as nonrecurring Level 3. The amount of nonrecurring fair value losses for impaired loans for the three and six months ended June 30, 2013 was $2.4 million and $3.0 million, respectively, as compared to $3.4 million and $4.6 million for the three and six months ended June 30, 2012, respectively, and is included in the consolidated statements of income as provision for loan losses.

The following table summarizes the financial assets and liabilities measured at fair value on a nonrecurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as follows (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2013:				
Assets:				
Loans held for sale	$—	$20,127	$—	$20,127
Impaired loans	—	7,987	—	7,987
Total assets at fair value	$—	$28,114	$—	$28,114

December 31, 2012:				
Assets:				
Loans held for sale	$—	$14,894	$34,000	$48,894
Impaired loans	—	4,366	21,000	25,366
Total assets at fair value	$—	$19,260	$55,000	$74,260

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of June 30, 2013, the significant unobservable inputs used in the fair value measurements were as follows (in thousands):

	Fair Value at June 30, 2013	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Interest rate swap agreements	$12,705	Discounted cash flow	Weighted average credit spreads	5.00%

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, principal paydown receivable, interest receivable, distribution payable and accrued interest expense approximates their carrying value on the consolidated balance sheet. The fair value of the Company's investment securities-trading is reported in Note 5. The fair value of the Company's investment securities available-for-sale is reported in Note 6. The fair value of the Company's derivative instruments and linked transactions is reported in Note 20.

Loans held-for-investment: The fair value of the Company's Level 2 Loans held-for-investment was primarily measured using a third-party pricing service. The fair value of the Company's Level 3 Loans held-for-investment was measured by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Loans receivable-related party are estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

CDO notes are valued using the dealer quotes, typically the dealer who underwrote the CDO in which the notes are held.

Junior subordinated notes are estimated by obtaining quoted prices for similar assets in active markets.

The fair values of the Company's remaining financial instruments that are not reported at fair value on the consolidated balance sheets are reported below (in thousands):

		Fair Value Measurements			
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets of Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:					
Loans held-for-investment	$1,658,611	$1,662,941	$—	$980,520	$682,421
Loans receivable-related party	$7,962	$7,962	$—	$—	$7,962
CDO notes	$1,330,617	$1,162,243	$—	$1,162,243	$—
Junior subordinated notes	$50,908	$17,402	$—	$—	$17,402
Repurchase agreement	$163,785	$163,785	$—	$—	$163,785
December 31, 2012:					
Loans held-for-investment	$1,793,780	$1,848,617	$—	$1,186,642	$661,975
Loans receivable-related party	$8,324	$8,324	$—	$—	$8,324

CDO notes	$1,614,883	$1,405,124	$—	$1,405,124	$—
Junior subordinated notes	$50,814	$17,308	$—	$—	$17,308
Repurchase agreement	$106,303	$106,303	$—	$—	$106,303

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

NOTE 20 – INTEREST RATE RISK AND DERIVATIVE INSTRUMENTS

A significant market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. During periods of changing interest rates, interest rate mismatches could negatively impact the Company's consolidated financial condition, consolidated results of operations and consolidated cash flows. In addition, the Company mitigates the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its investment portfolio by entering into interest rate hedging agreements such as interest rate caps and interest rate swaps.

The Company has made an accounting policy election to use the exception in FASB ASC 820-10-35-18D (commonly referred to as the "portfolio exception") with respect to measuring counterparty credit risk for derivative instruments, consistent with the guidance in FASB ASC 820-10-35-18G. The basis for use of this exception, as provided in FASB ASC 820-10-35-18E is as follows:

- The Company manages credit risk for its derivative positions on a counterparty-by-counterparty basis (that is, on the basis of its net portfolio exposure with each counterparty), consistent with its risk management strategy for such transactions. The Company manages credit risk by considering indicators of risk such as credit ratings, and by negotiating terms in its ISDA master netting arrangements (or similar agreements) and, if applicable, any associated Credit Support Annex ("CSA") documentation, with each individual counterparty. Credit risk plays a central role in the decision of which counterparties to consider for such relationships and when deciding with whom it will enter into derivative transactions.
- Since the effective date of FASB ASC 820, management has monitored and measured credit risk and calculated credit valuation adjustments ("CVAs") for its derivative transactions on the basis of its relationships at the counterparty portfolio/ISDA master netting arrangement level. Management receives reports from an independent third-party valuation specialist on a monthly basis providing the CVAs at the counterparty portfolio level for purposes of reviewing and managing its credit risk exposures. Since the portfolio exception applies only to the fair value measurement and not to financial statement presentation, the portfolio-level adjustments are then allocated in a reasonable and consistent manner each period to the individual assets or liabilities that make up the group, in accordance with other applicable accounting guidance and the Company's accounting policy elections.
- Derivative transactions are required under FASB ASC 815 to be measured at fair value in the statement of financial position each reporting period.

Finally, the Company notes that key market participants take into account the existence of arrangements that mitigate credit risk exposure in the event of default (in the Company's case, ISDA master netting arrangements with the counterparty).

At June 30, 2013, the Company had 16 interest rate swap contracts outstanding whereby the Company paid an average fixed rate of 5.00% and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $131.5 million at June 30, 2013. The counterparties for the Company’s designated interest rate hedge contracts at such date were Credit Suisse International and Wells Fargo, with which the Company had master netting agreements.

At December 31, 2012, the Company had 16 interest rate swap contracts outstanding whereby the Company paid an average fixed rate of 4.94% and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $135.2 million at December 31, 2012. The counterparties for the Company’s designated interest rate hedge contracts at such date were Credit Suisse International and Wells Fargo, with which the Company had master netting agreements.

(Back to Index)

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The estimated fair value of the Company’s interest rate swaps was $(12.7) million and $(14.7) million as of June 30, 2013 and December 31, 2012, respectively. The Company had aggregate unrealized losses of $13.4 million and $15.6 million on the interest rate swap agreements as of June 30, 2013 and December 31, 2012, respectively, which is recorded in accumulated other comprehensive loss. In connection with the August 2006 close of RREF CDO 2006-1, the Company realized a swap termination loss of $119,000, which is being amortized over the term of RREF CDO 2006-1. The amortization is reflected in interest expense in the Company’s consolidated statements of income. In connection with the June 2007 close of RREF CDO 2007-1, the Company realized a swap termination gain of $2.6 million, which is being amortized over the term of RREF CDO 2007-1. The accretion is reflected in interest expense in the Company’s consolidated statements of income. In connection with the termination of a $53.6 million swap related to RREF CDO 2006-1 during the nine months ended September 30, 2008, the Company realized a swap termination loss of $4.2 million, which is being amortized over the term of a new $45.0 million swap. The amortization is reflected in interest expense in the Company’s consolidated statements of income. In connection with the payoff of a fixed-rate commercial real estate loan during the three months ended September 30, 2008, the Company terminated a $12.7 million swap and realized a $574,000 swap termination loss, which is being amortized over the original term of the terminated swap. The amortization is reflected in interest expense in the Company’s consolidated statements of income.

The following tables present the fair value of the Company’s derivative financial instruments as well as their classification on the balance sheets and on the consolidated statement of income for the years presented:

Fair Value of Derivative Instruments as of June 30, 2013
(in thousands)

	Liability Derivatives		
	Notional Amount	Balance Sheet Location	Fair Value
As of June 30,			
Interest rate swap contracts 2013	$131,508	Derivatives, at fair value	$(12,705)
		Accumulated other comprehensive loss	$13,420

The Effect of Derivative Instruments on the Statement of Income for the Six Months Ended June 30,
(in thousands)

	Liability Derivatives		
	Notional Amount	Statement of Operations Location	Unrealized Loss (1)
Interest rate swap contracts 2013	$131,508	Interest expense	$3,388

(1)Negative values indicate a decrease to the associated balance sheets or consolidated statements of income line items.

Linked Transactions

The Company's Linked Transactions are evaluated on a combined basis, reported as forward (derivative) instruments and presented as assets on the Company's consolidated balance sheets at fair value. The fair value of Linked

Transactions reflect the value of the underlying CMBS, interest receivable, linked repurchase agreement borrowings and accrued interest payable on such instruments. The Company's linked transactions are not designated as hedging instruments and, as a result, the change in the fair value and net interest income from Linked Transactions is reported in other income on the Company's consolidated statement of income.

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2013
(Unaudited)

The following tables present certain information about the CMBS and repurchase agreements underlying the Company's Linked Transactions at June 30, 2013 and December 31, 2012.

Fair Value of Derivative Instruments as of
(in thousands)

	Asset Derivatives Designation	Balance Sheet Location	Fair Value
As of June 30,			
Linked Transactions at fair value, 2013	Non-Hedging	Linked Transactions, net at fair value	$25,281
As of December 31,			
Linked Transactions at fair value, 2012	Non-Hedging	Linked Transactions, net at fair value	$6,835

The Effect of Derivative Instruments on the Statement of Income for the
Six Months Ended June 30,
(in thousands)

	Asset Derivatives Designation	Statement of Operations Location	Revenues [1]
Linked Transactions at fair value, 2013	Non-Hedging	Unrealized gain/(loss) and net interest income on linked transactions, net	$(5,504)
Linked Transactions at fair value, 2012	Non-Hedging	Unrealized gain/(loss) and net interest income on linked transactions, net	$253

(1)Negative values indicate a decrease to the associated balance sheets or consolidated statements of income line items.

The following table presents certain information about the components of the unrealized net gains and net interest income from Linked Transactions included in the Company's consolidated statements of income for the three and six months ended June 30, 2013 and 2012, respectively (in thousands):

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Components of Unrealized Net Gains and Net Interest Income (Expense) from Linked Transactions				
Interest income attributable to CMBS underlying linked transactions	$756	$201		