Resource Capital Corp.
Form 10-Q
May 10, 2018

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 March 31, 2018
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.)

717 Fifth Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

(212) 621-3210
(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 þ 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 þ 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," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨(Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of outstanding shares of the registrant's common stock on May 4, 2018 was 31,650,417 shares.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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PART I
ITEM 1. FINANCIAL STATEMENTS
RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS (1)		
Cash and cash equivalents	$ 61,500	$ 181,490
Restricted cash	546	22,874
Accrued interest receivable	6,945	6,859
CRE loans, net of allowances of $4,529 and $5,328	1,376,999	1,284,822
Investment securities available-for-sale	250,746	211,737
Investment securities, trading	164	178
Loans held for sale	—	13
Principal paydowns receivable	20	76,129
Investments in unconsolidated entities	6,439	12,051
Derivatives, at fair value	1,751	602
Direct financing leases, net of allowances of $735	89	151
Other assets	6,981	7,451
Assets held for sale (amounts include $57,341 and $61,841 of legacy CRE loans held for sale in continuing operations, see Note 21)	77,621	107,718
Total assets	$ 1,789,801	$ 1,912,075
LIABILITIES (2)		
Accounts payable and other liabilities	$ 6,654	$ 5,153
Management fee payable	938	1,035
Accrued interest payable	3,244	4,387
Borrowings	1,222,386	1,163,485
Distributions payable	3,308	5,581
Preferred stock redemption liability	—	50,000
Derivatives, at fair value	—	76
Accrued tax liability	209	540
Liabilities held for sale (see Note 21)	2,883	10,342
Total liabilities	1,239,622	1,240,599
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.25% Series B Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 0 and 4,613,596 shares issued and outstanding	—	5
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value $0.001: 125,000,000 shares authorized; 31,650,417 and 31,429,892 shares issued and outstanding (including 465,808 and 483,073 unvested restricted shares)	32	31
Additional paid-in capital	1,080,927	1,187,911
Accumulated other comprehensive income	1,154	1,297
Distributions in excess of earnings	(531,939)	(517,773)
Total stockholders' equity	550,179	671,476

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,789,801	$ 1,912,075

The accompanying notes are an integral part of these statements

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

	March 31, 2018 (unaudited)	December 31, 2017
(1) Assets of consolidated variable interest entities ("VIEs") included in total assets above:		
Restricted cash	$ 513	$ 20,846
Accrued interest receivable	2,728	3,347
CRE loans, pledged as collateral and net of allowances of $844 and $1,330	571,640	603,110
Loans held for sale	—	13
Principal paydowns receivable	20	72,207
Other assets	188	73
Total assets of consolidated VIEs	$ 575,089	$ 699,596
(2) Liabilities of consolidated VIEs included in total liabilities above:		
Accounts payable and other liabilities	$ 65	$ 96
Accrued interest payable	412	592
Borrowings	298,970	416,655
Total liabilities of consolidated VIEs	$ 299,447	$ 417,343

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

	For the Three Months Ended March 31,	
	2018	2017
REVENUES		
Interest income:		
CRE loans	$22,383	$ 21,533
Securities	3,456	2,308
Other	118	1,630
Total interest income	25,957	25,471
Interest expense	14,384	14,254
Net interest income	11,573	11,217
Other (expense) revenue	(95)	928
Total revenues	11,478	12,145
OPERATING EXPENSES		
Management fees	2,813	2,680
Equity compensation	967	788
General and administrative	3,060	3,863
Depreciation and amortization	13	68
Impairment losses	—	177
(Recovery of) provision for loan and lease losses, net	(799)	999
Total operating expenses	6,054	8,575
	5,424	3,570
OTHER INCOME (EXPENSE)		
Equity in (losses) earnings of unconsolidated entities	(292)	361
Net realized and unrealized (loss) gain on investment securities available-for-sale and loans and derivatives	(642)	7,606
Net realized and unrealized loss on investment securities, trading	(5)	(911)
Fair value adjustments on financial assets held for sale	(4,665)	(21)
Other income	11	68
Total other (expense) income	(5,593)	7,103
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	(169)	10,673
Income tax benefit (expense)	32	(1,499)
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(137)	9,174
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	247	(561)
NET INCOME	110	8,613
Net income allocated to preferred shares	(5,210)	(6,014)
Consideration paid in excess of carrying value of preferred shares	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	101
NET (LOSS) INCOME ALLOCABLE TO COMMON SHARES	$(12,582)	$ 2,700
NET (LOSS) INCOME PER COMMON SHARE - BASIC:		
CONTINUING OPERATIONS	$(0.41)	$ 0.11
DISCONTINUED OPERATIONS	$0.01	$ (0.02)

TOTAL NET (LOSS) INCOME PER COMMON SHARE - BASIC	$(0.40)	$ 0.09
NET (LOSS) INCOME PER COMMON SHARE - DILUTED:		
CONTINUING OPERATIONS	$(0.41)	$ 0.11
DISCONTINUED OPERATIONS	$0.01	$ (0.02)
TOTAL NET (LOSS) INCOME PER COMMON SHARE - DILUTED	$(0.40)	$ 0.09
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,111,315	30,752,006
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,111,315	30,914,148

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Net income	$110	$8,613
Other comprehensive income (loss):		
Reclassification adjustments for realized losses on investment securities available-for-sale included in net income	217	—
Unrealized (losses) gains on investment securities available-for-sale, net	(1,509)	134
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	—	18
Unrealized gains on derivatives, net	1,149	—
Total other comprehensive (loss) income	(143)	152
Comprehensive (loss) income before allocation to non-controlling interests and preferred shares	(33)	8,765
Net loss allocable to non-controlling interest	—	101
Net income allocated to preferred shares	(5,210)	(6,014)
Consideration paid in excess of carrying value of preferred shares	(7,482)	—
Comprehensive (loss) income allocable to common shares	$(12,725)	$2,852

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2018
(in thousands, except share and per share data)
(unaudited)

	Common Stock		Series B Preferred Stock	Series C Preferred Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
	Shares	Amount							
Balance, January 1, 2018	31,429,892	$ 31	$ 5	$ 5	$ 1,187,911	$ 1,297	$ —	$ (517,773)	$ 671,476
Offering costs	—	—	—	—	—	—	—	—	—
Stock based compensation	229,384	1	—	—	—	—	—	—	1
Amortization of stock based compensation	—	—	—	—	967	—	—	—	967
Retirement of common stock	(7,134)	—	—	—	(70)	—	—	—	(70)
Forfeiture of unvested stock	(1,725)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	110	—	110
Distributions on preferred stock	—	—	—	—	—	—	(5,210)	—	(5,210)
Preferred stock redemption	—	—	(5)	—	(107,881)	—	(7,482)	—	(115,368)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	(1,292)	—	—	(1,292)
Designated derivatives, fair value adjustment	—	—	—	—	—	1,149	—	—	1,149
Distributions on common stock	—	—	—	—	—	—	12,582	(14,166)	(1,584)
Balance, March 31, 2018	31,650,417	$ 32	$ —	$ 5	$ 1,080,927	$ 1,154	$ —	$ (531,939)	$ 550,179

The accompanying notes are an integral part of these statements

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

	For the Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 110	$ 8,613
Net (income) loss from discontinued operations, net of tax	(247)	561
Net (loss) income from continuing operations	(137)	9,174
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by continuing operating activities:		
(Recovery of) provision for loan and lease losses, net	(799)	999
Depreciation, amortization and accretion	916	(349)
Amortization of stock based compensation	967	788
Sale of and principal payments on syndicated corporate loans held for sale	41	1,076
Sale of and principal payments on investment securities, trading, net	—	4,493
Net realized and unrealized loss on investment securities, trading	5	911
Net realized and unrealized loss (gain) on investment securities available-for-sale and loans and derivatives	642	(7,606)
Fair value adjustments on financial assets held for sale	4,665	21
Impairment losses	—	177
Equity in losses (earnings) of unconsolidated entities	292	(361)
Return on investment from investments in unconsolidated entities	—	6,292
Changes in operating assets and liabilities	5,119	1,465
Net cash provided by continuing operating activities	11,711	17,080
Net cash (used in) provided by discontinued operating activities	(105)	47,205
Net cash provided by operating activities	11,606	64,285
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination and purchase of loans	(142,124)	(119,240)
Principal payments received on loans and leases	127,456	116,159
Proceeds from sale of loans	—	21,250
Purchase of investment securities available-for-sale	(43,284)	—
Principal payments on investment securities available-for-sale	3,572	7,519
Proceeds from sale of investment securities available-for-sale	59	9,422
Return of capital from investments in unconsolidated entities	5,376	7,703
Settlement of derivative instruments	(46)	106
Net cash (used in) provided by continuing investing activities	(48,991)	142,919
Net cash provided by discontinued investing activities	12,730	4,902
Net cash (used in) provided by investing activities	(36,261)	147,821
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	—	(74)
Retirement of common stock	(56)	—
Repurchase of preferred stock	(165,340)	—

Net proceeds from repurchase agreements	175,042	83,513
Payments on borrowings:		
Securitizations	(118,243)	(100,542)
Distributions paid on preferred stock	(7,495)	(6,014)
Distributions paid on common stock	(1,571)	(1,550)
Net cash used in continuing financing activities	(117,663)	(24,667)
Net cash used in discontinued financing activities	—	(44,233)
Net cash used in financing activities	(117,663)	(68,900)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(142,314)	83,206

The accompanying notes are an integral part of these statements

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

	For the Three Months Ended March 31,	
	2018	2017
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	204,364	119,425
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$62,046	$162,631
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$13,266	$12,648
Income taxes paid in cash	$—	$515

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(unaudited)

NOTE 1 - ORGANIZATION

Resource Capital Corp., a Maryland corporation, and its subsidiaries (collectively, the "Company") is a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. The Company is externally managed by Resource Capital Manager, Inc. (the "Manager"), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of approximately 2.4% of the Company's outstanding common shares at March 31, 2018.

The Company has qualified, and expects to qualify in the current fiscal year, as a REIT.

In November 2016, the Company received approval from its board of directors (the "Board") to execute a strategic plan (the "Plan") to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting underperforming non-core asset classes (residential real estate-related assets and commercial finance assets) and establishing a dividend policy based on sustainable earnings. As a result, the Company evaluated its residential mortgage and middle market lending segments' assets and liabilities and determined both met all of the criteria to be classified as held for sale in the fourth quarter of 2016. As a result of the reclassification, these segments are reported as discontinued operations and have been excluded from continuing operations. See Note 21 for further discussion.

The following subsidiaries are consolidated in the Company's financial statements:

- RCC Real Estate, Inc. ("RCC Real Estate"), a wholly-owned subsidiary, holds CRE loans, CRE-related securities and historically has held direct investments in real estate. RCC Real Estate owns 100.0% of the equity of the following VIEs:

Resource Capital Corp. CRE Notes 2013, Ltd. ("RCC CRE Notes 2013") and Resource Capital Corp. 2014-CRE2, Ltd. ("RCC 2014-CRE2") were established to complete CRE securitization issuances secured by a portfolio of CRE loans. In December 2016 and August 2017, RCC CRE Notes 2013 and RCC 2014-CRE2, respectively, were liquidated and, as a result, the remaining assets were returned to the Company in exchange for the Company's preference shares and equity notes in the securitizations.

Resource Capital Corp. 2015-CRE3, Ltd. ("RCC 2015-CRE3"), Resource Capital Corp. 2015-CRE4, Ltd. ("RCC 2015-CRE4") and Resource Capital Corp. 2017-CRE5, Ltd. ("RCC 2017-CRE5") were each established to complete CRE securitization issuances secured by a separate portfolio of loans.

RCC Commercial, Inc. ("RCC Commercial"), a wholly-owned subsidiary, holds a 29.6% investment in NEW NP, LLC ("New NP, LLC"), which holds one directly originated middle market loan and historically held syndicated corporate loan investments. New NP, LLC is reported in discontinued operations, see Note 21 for further discussion.

- RCC Commercial also owns 100.0% of Apidos CDO III, Ltd. ("Apidos CDO III"). Apidos CDO III, a taxable REIT subsidiary ("TRS"), was established to complete a collateralized debt obligation ("CDO") issuance secured by a portfolio of syndicated corporate loans and asset-backed securities ("ABS"). In June 2015, the Company liquidated Apidos CDO III and, as a result, all of the assets were sold.

- RCC Commercial II, Inc. ("Commercial II"), a wholly-owned subsidiary, invests in structured notes and subordinated notes of foreign, syndicated corporate loan collateralized loan obligation ("CLO") vehicles. Commercial II also owns equity in the following VIEs:

Commercial II owns 100.0% of the equity of Apidos Cinco CDO ("Apidos Cinco"), a TRS that was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans, ABS and corporate bonds. In November 2016, the Company liquidated and sold substantially all of Apidos Cinco's assets. The remaining assets were consolidated by the Company upon liquidation and are marked at fair value.

Commercial II owns 68.3% of the equity of Whitney CLO I, Ltd. ("Whitney CLO I"), a TRS that holds residual assets following a September 2013 liquidation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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- RCC Commercial III, Inc. ("Commercial III"), a wholly-owned subsidiary, holds investments in syndicated corporate loan investments. Commercial III owns 90.0% of the equity of Apidos CDO I, LTD. ("Apidos CDO I"). Apidos CDO I, a TRS, was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans and ABS. In October 2014, the Company liquidated Apidos CDO I and as a result substantially all of the assets were sold.
- RSO EquityCo, LLC, a wholly-owned subsidiary, owns 10.0% of the equity of Apidos CDO I.
- RCC Residential Portfolio, Inc. ("RCC Resi Portfolio"), a wholly-owned subsidiary, historically invested in residential mortgage-backed securities ("RMBS"). The remaining securities were sold in September 2017.
- RCC Residential Portfolio TRS, Inc. ("RCC Resi TRS"), a wholly-owned TRS, was formed to hold strategic residential mortgage positions that could not be held by RCC Resi Portfolio. RCC Resi TRS also owns 100.0% of the equity, unless otherwise stated, in the following:

Primary Capital Mortgage, LLC ("PCM") (formerly known as Primary Capital Advisors, LLC), originated and serviced residential mortgage loans. In November 2016, PCM's operations were reclassified to discontinued operations. PCM sold its residential mortgage loan pipeline, its mortgage servicing rights and its remaining loans held for sale. See Note 21 for further discussion.
RCM Global Manager, LLC ("RCM Global Manager") owns 63.8% of RCM Global LLC ("RCM Global"). RCM Global, accounted for as an equity method investment, held a portfolio of investment securities available-for-sale.
RCC Residential Depositor, LLC ("RCC Resi Depositor") owns 100.0% of RCC Residential Acquisition, LLC ("RCC Resi Acquisition"). Prior to the Plan, RCC Resi Acquisition purchased residential mortgage loans from PCM and transferred the assets to RCC Residential Opportunities Trust ("RCC Opp Trust"). RCC Opp Trust, a wholly-owned statutory trust, held a portfolio of residential mortgage loans, available-for-sale.
Long Term Care Conversion Funding, LLC ("LTCC Funding") provided a financing facility to fund the acquisition of life settlement contracts.
Life Care Funding, LLC ("LCF") was established for the purpose of acquiring life settlement contracts. In July 2017, the Company purchased the balance of the outstanding membership interests of LCF, therefore becoming a single member LLC. In 2018, substantially all the life settlement contracts were sold.
RCC TRS, LLC ("RCC TRS") holds investments in direct financing leases and investment securities, trading. RCC TRS also owns equity in the following:
RCC TRS owns 100.0% of the equity of Resource TRS, LLC, which in turn holds a 25.8% investment in New NP, LLC, which is reported in discontinued operations.
RCC TRS owns 44.6% of the equity in New NP, LLC, which is reported in discontinued operations.
RCC TRS owns 80.2% of the equity in Pelium Capital, L.P. ("Pelium Capital"). Pelium Capital, accounted for as an equity method investment, held investment securities, trading.
Resource Capital Asset Management, LLC ("RCAM") was entitled to collect senior, subordinated and incentive fees related to CLO issuers to which it provided management services through CVC Credit Partners, LLC ("CVC Credit Partners"), formerly Apidos Capital Management ("ACM"), a subsidiary of CVC Capital Partners SICAV-FIS, S.A. ("CVC"). C-III sold its 24.0% interest in CVC Credit Partners in August 2017.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2018
(unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the accounting policies set forth in Note 2 included in the Company's annual report on Form 10-K for the year ended December 31, 2017. The consolidated financial statements include the accounts of the Company, majority owned or controlled subsidiaries and VIEs for which the Company is considered the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation

All adjustments necessary to present fairly the Company's financial position, results of operations and cash flows have been made.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At March 31, 2018 and December 31, 2017, approximately $58.3 million and $177.5 million, respectively, of the reported cash balances exceeded the Federal Deposit Insurance Corporation deposit insurance limit of $250,000 per institution. However, all of the Company's cash deposits are held at multiple, established financial institutions to minimize credit risk exposure.

Restricted cash includes required account balance minimums primarily for the Company's CRE CDO securitizations and cash held in the syndicated corporate loan CDOs.

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the consolidated balance sheets to the total amount shown in the consolidated statements of cash flows (dollars in thousands):

	As of March 31, 2018	March 31, 2017
Cash and cash equivalents	$61,500	$157,760
Restricted cash	546	4,871
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	$62,046	$162,631

Preferred Equity Investment

Preferred equity investments, which are subordinate to any loans but senior to common equity, depending on the investment's characteristics, may be accounted for as real estate, joint ventures or as mortgage loans. The Company's preferred equity investment is accounted for as a CRE loan held for investment and is carried at cost, net of unamortized loan fees and origination costs and is included within CRE loans on the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan utilizing the effective interest method. Interest and fees are recognized as income subject to recoverability, which is substantiated by obtaining annual appraisals on the underlying property.

Discontinued Operations

The results of operations of a component or a group of components of the Company that either has been disposed of or is classified as held for sale is reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2018
(unaudited)

Income Taxes

The Company established a full valuation allowance against its net deferred tax assets of approximately $39.0 million (tax effected $10.4 million) at March 31, 2018 as the Company believes it is more likely than not that some or all of the deferred tax assets will not be realized. This assessment was based on the Company's cumulative historical losses of and uncertainties as to the amount of taxable income that would be generated in future years by the Company's TRSs.

Recent Accounting Standards

Accounting Standards Adopted in 2018

In May 2017, the Financial Accounting Standards Board ("FASB") issued guidance to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Modification accounting should be applied unless all of the following three criteria are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions, or disposals, of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired, or disposed of, is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the guidance requires that: (i) to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (ii) remove the evaluation of whether a market participant could replace missing elements. The guidance also narrows the definition of an output to: the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest), or other revenues. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued guidance to reduce the diversity in practice of the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued guidance to reduce the diversity in practice around the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The guidance addresses the following eight specific cash flow issues: (i) debt prepayments or extinguishment costs; (ii) contingent consideration payments made after a business combination; (iii) proceeds from the settlement of insurance claims; (iv) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); (v) settlement of zero-coupon debt instruments or other debt instruments with insignificant coupon rates; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

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In January 2016, the FASB issued guidance to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments in order to provide users of financial statements with more decision-useful information. The guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements, and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. It is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Adoption did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance that establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the guidance was effective for the first interim or annual period beginning after December 15, 2016. In August 2015, the FASB issued additional guidance that delayed the previous effective date by one year, resulting in the original guidance becoming effective for the first interim or annual period beginning after December 15, 2017. Early application, which was not permissible under the initial effectiveness timeline, is now permissible though no earlier than as of the first interim or annual period beginning after December 15, 2016. In 2016, the FASB issued multiple amendments to the accounting standard to provide further clarification. Exclusions from the scope of this guidance include revenues resulting from loans, investment securities available-for-sale, investment securities, trading, investments in unconsolidated entities and leases. The Company evaluated the applicability of this guidance, considering the scope exceptions, and determined that adoption did not have a material impact on its consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In January 2017, the FASB issued guidance to add the Securities and Exchange Commission ("SEC") Staff Announcement "Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M)." The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. The Company completed its assessment under the new guidance on revenue recognition from contracts with customers, see "Account Standards Adopted in 2018." The Company is currently evaluating the impact of this guidance on leases and the measurement of credit losses on financial instruments and its impact on its consolidated financial statements.

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In June 2016, the FASB issued guidance which will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as it is currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within that reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance will be effective for reporting periods beginning on or after December 15, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation.

NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes), securitizations, guarantees and other financial contracts in order to determine if they are variable interests in VIEs. The Company regularly monitors these legal interests and contracts and, to the extent it has determined that it has a variable interest, analyzes the related entity for potential consolidation.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management's analysis, the Company is the primary beneficiary of Apidos CDO I, Apidos CDO III, Apidos Cinco, Whitney CLO I, RCC 2015-CRE3, RCC 2015-CRE4 and RCC 2017-CRE5 at March 31, 2018 and December 31, 2017 (for each period, collectively, the "Consolidated VIEs").

The Consolidated VIEs were formed on behalf of the Company to invest in real estate-related securities, CMBS, syndicated corporate loans, corporate bonds and ABS and were financed by the issuance of debt securities. The Manager and C-III Asset Management LLC ("C3AM"), a subsidiary of C-III, manage the CRE-related entities, and CVC Credit Partners manages the commercial finance-related entities on behalf of the Company. By financing these assets with long-term borrowings through the issuance of debt securities, 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 and is continually assessed.

Apidos CDO I and Apidos CDO III substantially liquidated their assets in October 2014 and June 2015, respectively. The securitizations are now entirely composed of restricted cash.

In November 2016, the Company substantially liquidated Apidos Cinco, a syndicated corporate loan CLO determined to be a VIE that is managed by CVC Credit Partners. As a result of the liquidation, all senior and mezzanine notes of the securitization were repaid, leaving only the Company's equity interest in the securitization outstanding as of December 31, 2016. As substantially all of the VIE's activities were being conducted on behalf of a single variable interest holder that was a related party of the decision maker, it was determined that the Company was the primary beneficiary of the transaction and, as such, should consolidate Apidos Cinco. At March 31, 2018, the Company consolidates two syndicated corporate loans held by Apidos Cinco, accounted for using the fair value option given the short hold period.

Whitney CLO I was a securitization in which the Company acquired rights to manage the collateral assets held by the entity in February 2011. Following liquidation in September 2013, Whitney CLO I is now composed of restricted cash.

For a discussion of the Company's consolidated securitizations see Note 1, and for a discussion of the debt issued through the securitizations see Note 10.

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For consolidated 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 each CLO and records the third party's share of the cash flows as interest expense on the consolidated statements of operations.

The Company has exposure to losses on its securitizations to the extent of its investments in the subordinated debt and preferred equity of each securitization. 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 securitizations, distributions with respect to its preferred equity interests. As a result of consolidation, the debt and equity interests the Company holds in these securitizations have been eliminated, and the Company's consolidated balance sheets reflect the assets held, debt issued by the securitizations to third parties and any accrued payables to third parties. The Company's operating results and cash flows include the gross amounts related to the securitizations' assets and liabilities as opposed to the Company's net economic interests in the securitizations. Assets and liabilities related to the securitizations are disclosed, in the aggregate, on the Company's consolidated balance sheets.

The creditors of the Company's seven Consolidated VIEs have no recourse to the general credit of the Company, nor to each other. During the three months ended March 31, 2018, the Company provided no financial support to any of its 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 that obligate the Company to provide financial support to any of its Consolidated VIEs.

The following table shows the classification and carrying values of assets and liabilities of the Company's Consolidated VIEs at March 31, 2018 (in thousands):

	CRE Securitizations	Other	Total
ASSETS			
Restricted cash	$ 2	$ 511	$ 513
Accrued interest receivable	2,728	—	2,728
CRE loans, pledged as collateral	571,640	—	571,640
Principal paydowns receivable	—	20	20
Other assets	188	—	188
Total assets (1)	$ 574,558	$ 531	$ 575,089
LIABILITIES			
Borrowings	$ 298,970	$ —	$ 298,970
Accrued interest payable	412	—	412
Accounts payable and other liabilities	65	—	65
Total liabilities	$ 299,447	$ —	$ 299,447

(1) 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 financial statements at March 31, 2018. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Exposure to Loss" column in the table below.

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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"), respectively, with a value of $1.5 million in the aggregate, or 3% of each trust, at March 31, 2018. RCT I and RCT II were formed for the purposes of providing debt financing to the Company. 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 of $774,000 each as investments in unconsolidated entities using the cost method, recording 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 each of RCT I and 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 is deemed to be the primary beneficiary of the trusts.

RCM Global, LLC

In July 2014, the Company, together with Resource America, Inc., a wholly-owned subsidiary of C-III, ("Resource America") and certain Resource America employees, acquired through RCM Global a portfolio of available-for-sale securities for $23.5 million. The portfolio is managed by Resource America. The Company contributed $15.0 million for a 63.8% membership interest. Revenues and expenses of RCM Global are allocated to each member in accordance with their membership interest. In March and June 2015, the Company requested and received an in-kind distribution in certain securities held by RCM Global resulting in a reduction of its ownership interest. RCM Global was determined to be a VIE based on the majority equity interest holders' inability to direct the activities that are most significant to the entity. In January 2016, the Company adopted the amendments to the consolidation guidance. Upon adoption, the Company reevaluated its variable interest in RCM Global and determined it would no longer be the primary beneficiary of RCM Global, as its investment in the limited liability company did not provide the Company with a controlling financial interest. As a result of its evaluation, the Company deconsolidated its investment in RCM Global. In January 2016, the Company began accounting for its investment in RCM Global as an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At March 31, 2018, the Company held a 63.8% interest in RCM Global, and the remainder was owned by subsidiaries and other parties associated with Resource America. The Company held a $217,000 investment at March 31, 2018.

Pelium Capital

In September 2014, the Company contributed $17.5 million to Pelium Capital for an initial ownership interest of 80.4%, and subsequently funded its final commitment of $2.5 million in February 2015. Pelium Capital is a specialized credit opportunity fund managed by an indirect wholly-owned subsidiary of C-III. The Company receives 10% of the carried interest in the partnership. Resource America contributed cash of $2.8 million to the formation of Pelium Capital. In December 2015, Pelium Capital was accounted for as a consolidated voting interest subsidiary. In January 2016, the Company adopted the amendments to the consolidation guidance. Upon adoption, the Company reevaluated its interest in Pelium Capital and determined that although it now possessed a variable interest in Pelium Capital, it would not be the primary beneficiary of Pelium Capital, as its investment in the limited partnership does not provide the Company with a controlling financial interest. As a result of its reevaluation, the Company deconsolidated its investment in Pelium Capital in January 2016, and accounted for its investment as an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At March 31, 2018, the Company held an 80.2% interest in Pelium Capital, with a carrying value of $4.7 million.

Wells Fargo Commercial Mortgage Trust 2017-C40

In October 2017, the Company purchased 95% of the Class E, F, G, H and J certificates of Wells Fargo Commercial Mortgage Trust 2017-C40 ("C40"), a B-piece investment in a Wells Fargo Commercial Mortgage Securities, Inc. a private-label $705.4 million securitization. C3AM, a related party that is not under common control, is the special servicer of C40. The Company determined that although its investment in C40 represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounted for its various investments in C40 as investment securities available-for-sale on its consolidated financial statements.

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Prospect Hackensack JV LLC

In March 2018, the Company invested $19.2 million in the preferred equity of Prospect Hackensack JV LLC ("Prospect Hackensack"), a joint venture between the Company and an unrelated third party ("Managing Member"). Prospect Hackensack was formed for the purpose of acquiring and operating a multifamily CRE property. The Managing Member will manage the daily operations of the property. The Company determined that although its investment in Prospect Hackensack represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounted for its investment in Prospect Hackensack's preferred equity as a CRE loan on its consolidated balance sheets.

The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company's unconsolidated VIEs at March 31, 2018 (in thousands):

	Unsecured Junior Subordinated Debentures	RCM Global LLC	Pelium Capital	C40	Prospect Hackensack	Total	Maximum Exposure to Loss
ASSETS							
Accrued interest receivable	$ —	$ —	$—	$—	$ 18	$18	$ —
CRE loans	—	—	—	—	19,008	19,008	$ 19,008
Investment securities available-for-sale [(1)]	—	—	—	20,855	—	20,855	$ 20,763
Investments in unconsolidated entities	1,548	217	4,674	—	—	6,439	$ 6,439
Total assets	1,548	217	4,674	20,855	19,026	46,320	
LIABILITIES							
Borrowings	51,548	—	—	—	—	51,548	N/A
Total liabilities	51,548	—	—	—	—	51,548	N/A
Net asset (liability)	$ (50,000)	$ 217	$4,674	$20,855	$ 19,026	$(5,228)	N/A

(1) The Company's investment in C40 is carried at fair value and its maximum exposure to loss is the amortized cost of the investment.

At March 31, 2018, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the Company's supplemental disclosure of cash flow information (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Non-cash continuing financing activities include the following:		
Distributions on common stock accrued but not paid	$1,584	$1,568
Distribution on preferred stock accrued but not paid	$1,724	$4,009

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NOTE 5 - LOANS
The following is a summary of the Company's loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net (1)	Amortized Cost	Allowance for Loan Losses	Carrying Value (2)	Contracted Interest Rates (3)	Maturity Dates (4)(5)
At March 31, 2018:								
CRE loans held for investment:								
Whole loans (6)	75	$1,369,753	$ (7,233)	$1,362,520	$ (4,529)	$1,357,991	1M LIBOR plus 3.50% to 1M LIBOR plus 6.25% (Floating) and 8.00% (Fixed)	April 2018 to April 2021
Preferred equity investment (see Note 3) (7)(8)	1	19,200	(192)	19,008	—	19,008	11.50%	April 2025
Total CRE loans held for investment		1,388,953	(7,425)	1,381,528	(4,529)	1,376,999		
Total loans		$1,388,953	$ (7,425)	$1,381,528	$ (4,529)	$1,376,999		
At December 31, 2017:								
CRE loans held for investment:								
Whole loans (6)	70	$1,297,164	$ (7,014)	$1,290,150	$ (5,328)	$1,284,822	1M LIBOR plus 3.60% to 1M LIBOR plus 6.25%	February 2018 to January 2021
Total CRE loans held for investment		1,297,164	(7,014)	1,290,150	(5,328)	1,284,822		
Syndicated corporate loans (9)	2	13	—	13	—	13	N/A	N/A
Total loans held for sale		13	—	13	—	13		

Total loans	$1,297,177	$(7,014)	$1,290,163