

Ladder Capital Corp  
Form 10-Q  
May 08, 2015  
Table of Contents

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

Or

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

For the transition period from      to

Commission file number:  
001-36299

Ladder Capital Corp  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

80-0925494  
(IRS Employer  
Identification No.)

345 Park Avenue, New York  
(Address of principal executive offices)

10154  
(Zip Code)

(212) 715-3170  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Edgar Filing: Ladder Capital Corp - Form 10-Q

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2015
Class A Common Stock, \$0.001 par value	51,909,888
Class B Common Stock, no par value	47,644,612

Table of Contents

LADDER CAPITAL CORP

FORM 10-Q  
March 31, 2015

	Page
Index	
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>
	<u>Combined Consolidated Balance Sheets</u> 6
	<u>Combined Consolidated Statements of Income</u> 7
	<u>Combined Consolidated Statements of Comprehensive Income</u> 8
	<u>Combined Consolidated Statements of Changes in Equity/Capital</u> 9
	<u>Combined Consolidated Statements of Cash Flows</u> 10
	<u>Notes to Combined Consolidated Financial Statements</u> 12
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 58
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 86
<u>Item 4.</u>	<u>Controls and Procedures</u> 89
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 90
<u>Item 1A.</u>	<u>Risk Factors</u> 90
<u>Item 2.</u>	<u>Unregistered Sales of Securities</u> 90
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 90
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 90
<u>Item 5.</u>	<u>Other Information</u> 90
<u>Item 6.</u>	<u>Exhibits and Financial Statement Schedules</u> 91
<u>SIGNATURES</u>	

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”) includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact contained in this Quarterly Report, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “might,” “will,” “should,” “can have,” “likely” and other words and terms of similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs. Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ from those expressed in our forward-looking statements. Our future financial position and results of operations, as well as any forward-looking statements are subject to change and inherent risks and uncertainties. You should consider our forward-looking statements in light of a number of factors that may cause actual results to vary from our forward-looking statements including, but not limited to:

risks discussed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K (the “Annual Report”), as well as our combined consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report and our other filings with the United States Securities and Exchange Commission (“SEC”);

- changes in general economic conditions, in our industry and in the commercial finance and the real estate markets;
- changes to our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our actual and expected leverage;
- the adequacy of collateral securing our loan portfolio and a decline in the fair value of our assets;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in prepayment rates on our assets;
- the effects of hedging instruments and the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- the increased rate of default or decreased recovery rates on our assets;
- the adequacy of our policies, procedures and systems for managing risk effectively;
- a potential downgrade in the credit ratings assigned to our investments;
- the impact of and changes in governmental regulations, tax laws and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and our ability and the ability of our subsidiaries to operate in compliance with REIT requirements;
- our ability and the ability of our subsidiaries to maintain our and their exemptions from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”);
- potential liability relating to environmental matters that impact the value of properties we may acquire or the properties underlying our investments;
- the inability of insurance covering real estate underlying our loans and investments to cover all losses;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;
- fraud by potential borrowers;
- the availability of qualified personnel;

the degree and nature of our competition;  
the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;  
and  
the prepayment of the mortgages and other loans underlying our mortgage-backed and other asset-backed securities.

2

---

Table of Contents

You should not rely upon forward-looking statements as predictions of future events. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The forward-looking statements contained in this Quarterly Report are made as of the date hereof, and the Company assumes no obligation to update or supplement any forward-looking statements.

3

---

Table of Contents

REFERENCES TO LADDER CAPITAL CORP

Ladder Capital Corp is a holding company and its primary assets are a controlling equity interest in Ladder Capital Finance Holdings LLLP (“LCFH” or the “Operating Partnership”) and in each series thereof, directly or indirectly. Unless the context suggests otherwise, references in this report to “Ladder,” “Ladder Capital,” the “Company,” “we,” “us” and “our” (1) prior to the February 2014 initial public offering (“IPO”) of the Class A common stock of Ladder Capital Corp and related transactions, to LCFH (“Predecessor”) and its combined consolidated subsidiaries and (2) after our IPO and related transactions, to Ladder Capital Corp and its combined consolidated subsidiaries.

Table of Contents

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

The combined consolidated financial statements of Ladder Capital Corp and Predecessor and the notes related to the foregoing combined consolidated financial statements are included in this Item 1.

Index to Combined Consolidated Financial Statements (Unaudited)

<u>Combined Consolidated Balance Sheets</u>	<u>6</u>
<u>Combined Consolidated Statements of Income</u>	<u>7</u>
<u>Combined Consolidated Statements of Comprehensive Income</u>	<u>8</u>
<u>Combined Consolidated Statements of Changes in Equity/Capital</u>	<u>9</u>
<u>Combined Consolidated Statements of Cash Flows</u>	<u>10</u>
<u>Notes to Combined Consolidated Financial Statements</u>	<u>12</u>



Table of Contents

Ladder Capital Corp and Predecessor  
 Combined Consolidated Balance Sheets  
 (Dollars in Thousands)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$83,459	\$76,218
Cash collateral held by broker	47,971	42,438
Mortgage loan receivables held for investment, net, at amortized cost	1,775,006	1,521,053
Mortgage loan receivables held for sale	250,583	417,955
Real estate securities, available-for-sale	2,623,877	2,815,566
Real estate held for sale	21,904	—
Real estate and related lease intangibles, net	829,529	768,986
Investments in unconsolidated joint ventures	2,828	6,041
FHLB stock	72,340	72,340
Derivative instruments	164	423
Due from brokers	25,991	4
Accrued interest receivable	22,479	24,658
Other assets	88,453	77,979
Total assets	\$5,844,584	\$5,823,661
Liabilities and Equity		
Liabilities		
Debt obligations	\$3,602,178	\$3,572,825
Senior unsecured notes	619,555	619,555
Due to brokers	260	—
Derivative instruments	24,897	13,445
Amount payable pursuant to tax receivable agreement	862	862
Dividends payable	12,493	—
Accrued expenses	45,558	91,993
Other liabilities	24,143	19,774
Total liabilities	4,329,946	4,318,454
Commitments and contingencies	—	—
Equity		
Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 51,958,908 shares issued and outstanding	52	51
Class B common stock, no par value, 100,000,000 shares authorized; 47,644,872 shares issued and outstanding	—	—
Additional paid-in capital	721,460	725,538
Retained earnings	40,870	44,187
Accumulated other comprehensive income	25,380	15,656
Total shareholders' equity	787,762	785,432
Noncontrolling interest in operating partnership	718,750	711,674
Noncontrolling interest in consolidated joint ventures	8,126	8,101
Total equity	1,514,638	1,505,207
Total liabilities and equity	\$5,844,584	\$5,823,661

The accompanying notes are an integral part of these combined consolidated financial statements.

6

---

Table of Contents

Ladder Capital Corp and Predecessor  
 Combined Consolidated Statements of Income  
 (Dollars in Thousands, Except Per Share and Dividend Data)  
 (Unaudited)

	Three Months Ended March	
	31, 2015	2014
Net interest income		
Interest income	\$56,383	\$36,822
Interest expense	26,824	14,841
Net interest income	29,559	21,981
Provision for loan losses	150	150
Net interest income after provision for loan losses	29,409	21,831
Other income		
Operating lease income	19,147	13,213
Tenant recoveries	2,526	2,080
Sale of loans, net	30,027	41,303
Realized gain (loss) on securities	12,150	1,809
Unrealized gain (loss) on Agency interest-only securities	(1,318)	(1,034)
Realized gain on sale of real estate, net	7,662	6,693
Fee income	3,541	2,309
Net result from derivative transactions	(39,139)	(26,287)
Earnings from investment in unconsolidated joint ventures	441	348
Total other income	35,037	40,434
Costs and expenses		
Salaries and employee benefits	13,758	20,003
Operating expenses	8,803	3,041
Real estate operating expenses	9,372	7,602
Real estate acquisition costs	600	—
Fee expense	1,123	502
Depreciation and amortization	9,723	7,427
Total costs and expenses	43,379	38,575
Income before taxes	21,067	23,690
Income tax (benefit) expense	3,104	5,289
Net income	17,963	18,401
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(191)	191
Net loss attributable to predecessor unitholders	—	12,628
Net (income) attributable to noncontrolling interest in operating partnership	(8,597)	(18,568)
Net income attributable to Class A common shareholders	\$9,175	\$12,652
Earnings per share:		
Basic	\$0.18	\$0.26
Diluted	\$0.15	\$0.24
Weighted average shares outstanding:		

Edgar Filing: Ladder Capital Corp - Form 10-Q

Basic	49,986,082	48,909,692
Diluted	98,098,672	97,531,793
Dividends per share of Class A common stock:	\$0.25	\$—

The accompanying notes are an integral part of these combined consolidated financial statements.

7

---

Table of Contents

Ladder Capital Corp and Predecessor  
 Combined Consolidated Statements of Comprehensive Income  
 (Dollars in Thousands)  
 (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$17,963	\$18,401
Other comprehensive income (loss)		
Unrealized gains on securities, net of tax:		
Unrealized gain (loss) on real estate securities, available for sale (1)	30,874	15,604
Reclassification adjustment for (gains) included in net income (2)	(12,372)	) (1,809 )
Total other comprehensive income (loss)	18,502	13,795
Comprehensive income	36,465	32,196
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	(191)	) 191
Comprehensive income of combined Class A common shareholders and Predecessor unit holders	\$36,274	\$32,387
Comprehensive (income) attributable to predecessor unitholders	—	(4,380 )
Comprehensive (income) attributable to noncontrolling interest in operating partnership	(17,511)	) (16,995 )
Comprehensive income attributable to Class A common shareholders	\$18,763	\$11,012

(1) Amounts are net of provision for (benefit from) income taxes of \$0.8 million and none for the three months ended March 31, 2015 and 2014, respectively.

(2) Amounts are net of (provision for) benefit from income taxes of \$(0.3) million and none for the three months ended March 31, 2015 and 2014, respectively.

The accompanying notes are an integral part of these combined consolidated financial statements.

Table of Contents

Ladder Capital Corp and Predecessor  
 Combined Consolidated Statements of Changes in Equity/Capital  
 (Dollars and Shares in Thousands)  
 (Unaudited)

	Predecessor's Partners' Capital			Shareholders' Equity						Accumulated Other Comprehensive Income	Noncontro Operating Partnership
	Series A Preferred Units	Series B Preferred Units	Common Units	Class A Common Stock		Class B Common Stock		Additional Paid- in-Capital	Retained Earnings		
				LP Units Shares	Par	Shares	Par				
Balance, December 31, 2013	\$825,985	\$290,847	\$59,565	\$—	—	\$—	—	\$—	—	\$—	\$—
Contributions	—	—	—	—	—	—	—	—	—	—	—
Distributions	—	(369 )	—	—	—	—	—	—	—	—	(47,926)
Equity based compensation	—	290	—	—	—	—	—	332	—	—	13,829
Issuance of common stock (IPO)	—	—	—	—	16,925	16	—	259,021	—	—	—
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	—	—	—	—	(10 )	—	—	—	(125)
Forfeitures	—	—	—	—	(40 )	—	(6 )	—	—	—	—
Offering costs	—	—	—	—	—	—	—	(20,523 )	—	—	—
Reorganization transactions	(828,577 )	(291,680 )	(60,441 )	1,180,698	—	—	—	—	—	—	—
Exchange of capital for common stock	—	—	—	(483,606 )	34	—	—	468,694	—	14,874	—
Exchange of predecessor LP Units for common stock	—	—	—	(697,096 )	—	48,537	—	—	—	—	697,096
Exchange of noncontrolling interest for common stock	—	—	—	—	874	1	(874 )	12,502	—	324	(12,827)
Adjustment to tax receivable agreement as a result of the exchange of Class B shares	—	—	—	—	—	—	—	152	—	—	—

Edgar Filing: Ladder Capital Corp - Form 10-Q

Net income (loss)	(7,471 )	(2,631 )	(2,526 )	—	—	—	—	44,187	—	66,437		
Other comprehensive income	10,063	3,543	3,402	—	—	—	—	—	488	520		
Rebalancing of ownership percentage between Company and Operating Partnership	—	—	—	—	—	—	—	—	(30 )	(5,330)		
Balance, December 31, 2014	\$—	\$—	\$—	\$—	51,432	51	47,647	\$—	725,538	\$44,187	\$15,656	\$711,6
Contributions	—	—	—	—	—	—	—	—	—	—	—	—
Distributions	—	—	—	—	—	—	—	—	—	—	—	(13,735)
Equity based compensation	—	—	—	—	—	—	—	—	111	—	—	3,028
Grants of restricted stock	—	—	—	—	722	1	—	(1 )	—	—	—	—
Shares acquired to satisfy minimum required federal and state tax withholding on vesting	—	—	—	—	(195 )	—	(2 )	—	(3,739 )	—	—	(41)
restricted stock Dividends declared	—	—	—	—	—	—	—	—	(12,492 )	—	—	—
Net income (loss)	—	—	—	—	—	—	—	—	9,175	—	—	8,597
Other comprehensive income	—	—	—	—	—	—	—	—	—	9,588	—	8,914
Rebalancing of ownership percentage between Company and Operating Partnership	—	—	—	—	—	—	—	—	(449 )	—	136	313
Balance, March 31, 2015	\$—	\$—	\$—	\$—	51,959	52	47,645	\$—	721,460	\$40,870	\$25,380	\$718,7

The accompanying notes are an integral part of these combined consolidated financial statements.

Table of Contents

Ladder Capital Corp and Predecessor  
 Combined Consolidated Statements of Cash Flows  
 (Dollars in Thousands)  
 (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$17,963	\$18,401
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,723	7,422
Unrealized (gain) loss on derivative instruments	11,395	10,508
Unrealized (gain) loss on Agency interest-only securities	1,318	1,034
Provision for loan losses	150	150
Amortization of equity based compensation	3,139	2,325
Amortization of deferred financing costs included in interest expense	1,593	1,349
Amortization of premium on mortgage loan financing	(192)	(142)
Amortization of above- and below-market lease intangibles	405	155
Accretion/amortization of discount, premium and other fees on loans	(1,591)	(1,634)
Accretion/amortization of discount, premium and other fees on securities	22,082	18,778
Realized gain on sale of mortgage loan receivables held for sale	(30,027)	(41,303)
Realized gain on real estate securities	(12,150)	(1,809)
Realized gain on sale of real estate, net	(7,662)	(6,693)
Origination of mortgage loan receivables held for sale	(391,934)	(463,575)
Repayment of mortgage loan receivables held for sale	164	316
Proceeds from sales of mortgage loan receivables held for sale	589,169	783,762
Accrued interest receivable	2,179	(1,145)
Earnings on investment in unconsolidated joint ventures	(441)	(348)
Distributions from operations of investment in unconsolidated joint ventures	281	800
Deferred tax asset	1,563	—
Changes in operating assets and liabilities:		
Other assets	(4,424)	(10,671)
Accrued expenses and other liabilities	(43,776)	(22,723)
Net cash provided by (used in) operating activities	168,927	294,957
Cash flows used in investing activities:		
Reduction (addition) of cash collateral held by broker for derivatives	(6,593)	3,999
Purchases of real estate securities	(243,635)	(171,567)
Repayment of real estate securities	72,982	46,702
Proceeds from sales of real estate securities	344,350	29,611
Purchase of FHLB stock	—	(950)
Origination and purchases of mortgage loan receivables held for investment	(378,042)	(147,571)
Repayment of mortgage loan receivables held for investment	125,531	12,336
Reduction (addition) of cash collateral held by broker	1,060	(8,073)
Addition of deposits received for loan originations	(1,248)	(864)
Title deposits included in other assets	(8,756)	2,007
Distributions of return of capital from investment in unconsolidated joint ventures	3,372	1,500



Edgar Filing: Ladder Capital Corp - Form 10-Q

Purchases of real estate	(103,262	) —	
Capital improvements of real estate	(437	) (216	)
Proceeds from sale of real estate	22,067	19,936	
Net cash provided by (used in) investing activities	(172,611	) (213,150	)

10

---

Table of Contents

	Three Months Ended March 31,	
	2015	2014
Cash flows from financing activities:		
Deferred financing costs	(938	) (2,282
Proceeds from borrowings under debt obligations	4,344,073	3,095,474
Repayment of borrowings under debt obligations	(4,314,529	) (3,349,312
Partners' capital distributions	—	(369
Capital distributed to noncontrolling interests in operating partnership	(13,735	) (27,105
Capital contributed by noncontrolling interests in consolidated joint ventures	19	—
Capital distributed to noncontrolling interests in consolidated joint ventures	(185	) (293
Payment of liability assumed in exchange for shares for the minimum withholding taxes on vesting restricted stock	(3,780	) —
Issuance of common stock	—	259,037
Common stock offering costs	—	(20,233
Net cash provided by (used in) financing activities	10,925	(45,083
Net increase (decrease) in cash	7,241	36,724
Cash and cash equivalents at beginning of period	76,218	78,742
Cash and cash equivalents at end of period	\$83,459	\$ 115,466
Supplemental information:		
Cash paid for interest	\$35,929	\$ 19,316
Cash paid for income taxes	\$17,202	\$ 1,095
Supplemental disclosure of non-cash investing activities:		
Securities purchased, not settled	\$(260	) \$(30,090
Securities sold, not settled	\$25,987	\$28,675
Supplemental disclosure of non-cash financing activities:		
Exchange of capital for common stock	\$—	\$483,568
Exchange of predecessor LP Units for common stock	\$—	\$697,097
Change in deferred tax asset related to change in tax receivable agreement	\$—	\$306

The accompanying notes are an integral part of these combined consolidated financial statements.

Table of Contents

Ladder Capital Corp and Predecessor  
Notes to Combined Consolidated Financial Statements  
(Unaudited)

1. ORGANIZATION AND OPERATIONS

Ladder Capital Corp is an internally-managed real estate investment trust (“REIT”) that is a leader in commercial real estate finance. As the general partner of Ladder Capital Finance Holdings LLLP (“LCFH,” “Predecessor” or the “Operating Partnership”), Ladder Capital Corp, through LCFH and its subsidiaries, operates the Ladder Capital business. As of March 31, 2015, Ladder Capital Corp has a 52.2% economic interest in LCFH and controls the management of LCFH as a result of its ability to appoint its board members. As a result, Ladder Capital Corp consolidates the financial results of LCFH and records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners (as defined below). In addition, Ladder Capital Corp is subject to federal, state and local income taxes due to its corporate structure. Other than the noncontrolling interest in the Operating Partnership and federal, state and local income taxes, there are no material differences between Ladder Capital Corp’s combined consolidated financial statements and LCFH’s consolidated financial statements.

The IPO Transactions

Ladder Capital Corp was formed as a Delaware corporation on May 21, 2013. The Company conducted an initial public offering (“IPO”) which closed on February 11, 2014. The Company used the net proceeds from the IPO to purchase newly issued limited partnership units (“LP Units”) from LCFH. In connection with the IPO, Ladder Capital Corp also became a holding corporation and the general partner of, and obtained a controlling interest in, LCFH. Ladder Capital Corp’s only business is to act as the general partner of LCFH, and, as such, Ladder Capital Corp indirectly operates and controls all of the business and affairs of LCFH and its subsidiaries through its ability to appoint the LCFH board. The proceeds received by LCFH in connection with the sale of the LP Units have been and will be used for loan origination, real estate businesses and for general corporate purposes.

Ladder Capital Corp consolidates the financial results of LCFH and its subsidiaries. The ownership interest of certain existing owners of LCFH, who owned LP Units and an equivalent number of shares of Ladder Capital Corp Class B common stock as of the completion of the IPO (the “Continuing LCFH Limited Partners”) and continue to hold equivalent units in the Series of LCFH (as described below) and Ladder Capital Corp Class B common stock, is reflected as a noncontrolling interest in Ladder Capital Corp’s combined consolidated financial statements.

Immediately prior to the closing of the IPO on February 11, 2014, LCFH effectuated certain transactions intended to simplify its capital structure (the “Reorganization Transactions”). Prior to the Reorganization Transactions, LCFH’s capital structure consisted of three different classes of membership interests (Series A and Series B Participating Preferred Units and Class A Common Units), each of which had different capital accounts. The net effect of the Reorganization Transactions was to convert the multiple-class structure into LP Units, a single new class of units in LCFH, and an equal number of shares of Class B common stock of Ladder Capital Corp. The conversion of all of the different classes of LCFH occurred in accordance with conversion ratios for each class of outstanding units based upon the liquidation value of LCFH, as if it had been liquidated upon the IPO, with such value determined by the \$17.00 price per share of Class A common stock sold in the IPO. The distribution of LP Units per class of outstanding units was determined pursuant to the distribution provisions set forth in LCFH’s amended and restated Limited Liability Limited Partnership Agreement (the “Amended and Restated LLLP Agreement”). In addition, in connection with the IPO, certain of LCFH’s existing investors (the “Exchanging Existing Owners”) received 33,672,192 shares of Ladder Capital Corp Class A common stock in lieu of any or all LP Units and shares of Ladder Capital Corp Class B

common stock that would otherwise have been issued to such existing investors in the Reorganization Transactions, which resulted in Ladder Capital Corp, or a wholly-owned subsidiary of Ladder Capital Corp, owning one LP Unit for each share of Class A Common Stock so issued to the Exchanging Existing Owners.

The IPO resulted in the issuance by Ladder Capital Corp of 15,237,500 shares of Class A common stock to the public, including 1,987,500 shares of Class A common stock offered as a result of the exercise of the underwriters' over-allotment option, and net proceeds to Ladder Capital Corp of \$238.5 million (after deducting fees and expenses associated with the IPO). In addition, in connection with the IPO, the Company granted 1,687,513 shares of restricted Class A common stock to members of management, certain directors and certain employees. As a result, the equivalent number of LP Units were issued by LCFH to Ladder Capital Corp.

## Table of Contents

Pursuant to the Amended and Restated LLLP Agreement, and subject to the applicable minimum retained ownership requirements and certain other restrictions, including notice requirements, from time to time, Continuing LCFH Limited Partners (or certain transferees thereof) had the right to exchange their LP Units for shares of Ladder Capital Corp's Class A common stock on a one-for-one basis.

As a result of the Company's acquisition of LP Units of LCFH and LCFH's election under Section 754 of Internal Revenue Code of 1986, as amended (the "Code"), the Company expects to benefit from depreciation and other tax deductions reflecting LCFH's tax basis for its assets. Those deductions will be allocated to the Company and will be taken into account in reporting the Company's taxable income.

As a result of the transactions described above, at the time of the IPO:

Ladder Capital Corp became the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. Accordingly, Ladder Capital Corp had a 51.0% economic interest in LCFH (which has since increased), and Ladder Capital Corp has a majority voting interest and controls the management of LCFH;

50,597,205 shares of Ladder Capital Corp's Class A common stock were outstanding (comprised of 15,237,500 shares issued to the investors in the IPO, 33,672,192 shares issued to the Exchanging Existing Owners and 1,687,513 shares issued to certain directors, officers, and employees in connection with the IPO), and 48,537,414 shares of Ladder Capital Corp's Class B common stock were outstanding. Class B common stock has no economic interest but rather voting interest in the Company. At the time of the IPO, 99,134,619 LP Units of LCFH were outstanding, of which 50,597,205 LP Units were held by Ladder Capital Corp and its subsidiaries and 48,537,414 units were held by the Continuing LCFH Limited Partners; and

LP Units became exchangeable on a one-for-one basis for shares of Ladder Capital Corp Class A common stock. In connection with an exchange, a corresponding number of shares of Ladder Capital Corp Class B common stock were required to be provided and canceled. LP units and Ladder Capital Corp Class B common stock could not be legally separated. However, the exchange of LP Units for shares of Ladder Capital Corp Class A common stock would not affect the exchanging owners' voting power since the votes represented by the canceled shares of Ladder Capital Corp Class B common stock would be replaced with the votes represented by the shares of Class A common stock for which such LP Units were exchanged.

The Company accounted for the Reorganization Transactions as an exchange between entities under common control and recorded the net assets and shareholders' equity of the contributed entities at historical cost.

The Reorganization Transactions and the IPO are collectively referred to as the "IPO Transactions."

### The REIT Structuring Transactions

In anticipation of the Company's election to be subject to tax as a REIT beginning with its 2015 taxable year (the "REIT Election"), we effected an internal realignment as of December 31, 2014 that we believe permits us to operate as a REIT, subject to the risk factors described in our Annual Report on Form 10-K (the "Annual Report") (see "Risk Factors—Risks Related to Our Taxation as a REIT"). As part of this realignment, LCFH and certain of its wholly-owned subsidiaries were serialized in order to segregate our REIT-qualified assets and income from our non-REIT-qualified assets and income. Pursuant to such serialization, all assets and liabilities of LCFH and each such subsidiary were identified as taxable REIT subsidiary ("TRS") assets and liabilities (e.g., our conduit securitization and condominium sales businesses) and REIT assets and liabilities (e.g., balance sheet loans, real estate and most securities), and were allocated on our internal books and records into two pools within LCFH or such subsidiary, Series TRS and Series REIT (collectively, the "Series"), respectively.

In connection with this serialization, the Amended and Restated LLLP Agreement was amended and restated, effective as of December 5, 2014 and again as of December 31, 2014 (the “Third Amended and Restated LLLP Agreement”). Pursuant to the Third Amended and Restated LLLP Agreement, as of December 31, 2014: all assets and liabilities of LCFH were allocated on LCFH’s internal books and records to either Series REIT or Series TRS of LCFH;

Table of Contents

the Company serves as general partner of LCFH and of Series REIT of LCFH;

LC TRS I LLC (“LC TRS I”), a Delaware limited liability company wholly-owned by Series REIT of LCFH, serves as the general partner of Series TRS of LCFH;

each outstanding LP Unit was exchanged for one Series REIT LP Unit (which is entitled to receive profits and losses derived from REIT assets and liabilities) and one Series TRS LP Unit (which is entitled to receive profits and losses derived from TRS assets and liabilities) (collectively, “Series Units”);

as a result, Ladder Capital Corp owned, directly and indirectly, an aggregate of 51.9% of Series REIT of LCFH, and, through such ownership, the right to receive 51.9% of the profits and distributions of Series TRS;

the limited partners of LCFH owned the remaining 48.1% of each of Series REIT and Series TRS of LCFH;

Series REIT of LCFH, in turn, owns, directly or indirectly, 100% of the REIT series of each of its serialized subsidiaries as well as certain wholly-owned REIT subsidiaries;

Series TRS of LCFH owns, directly or indirectly, 100% of the TRS series of each of its serialized subsidiaries as well as certain wholly-owned TRSs;

Series TRS LP Units are exchangeable for an equal number of shares (“TRS Shares”) of LC TRS I (a “TRS Exchange”);

in order to effect the exchange of Series Units for shares of Class A common stock of the Company on a one-for-one basis (the “Class A Exchange”), holders are required to surrender (i) one share of the Company’s Class B common stock, (ii) one Series REIT LP Unit, and (iii) either one Series TRS LP Unit or one TRS Share; and

Series REIT and Series TRS have separate boards, officers, books and records, bank accounts, and tax identification numbers.

Each Series of LCFH also signed a separate joinder agreement, agreeing effective as of 11:59:59 pm on December 31, 2014 (the “Effective Time”), to assume and pay when due (i) any and all liabilities of LCFH incurred or accrued by LCFH as of the Effective Time and (ii) any and all obligations of LCFH arising under contracts, bonds, notes, guarantees, leases or other agreements to which LCFH was a party as of the Effective Time (collectively, the “Agreements”), regardless of whether such obligations arise under the applicable Agreement at, prior to, or after the Effective Time, in each case, with the same force and effect as if each Series had been a signatory to such Agreements on the date thereof.

Also in connection with the planned REIT Election, the Company’s certificate of incorporation was amended and restated, effective as of February 27, 2015, following approval by our shareholders (the “Charter Amendment”), to, among other things, impose ownership limitations and transfer restrictions to facilitate our compliance with the REIT requirements. To qualify as a REIT under the Code, our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (other than the first year for which an election to be a REIT has been made). Also, not more than 50% of the value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer “individuals” (as defined to include certain entities such as private foundations) during the last half of a taxable year (other than the first taxable year for which an election to be a REIT has been made). Finally, a person actually or constructively owning 10% or more of the vote or value of the outstanding shares of our capital stock could lead to a level of affiliation between the Company and one or more of its tenants that could disqualify our revenues from the affiliated tenants and possibly jeopardize or otherwise adversely impact our qualification as a REIT.

To facilitate satisfaction of these requirements for qualification as a REIT, the Charter Amendment contains provisions restricting the ownership and transfer of shares of all classes or series of our capital stock. Including ownership limitations in a REIT's charter is the most effective mechanism to monitor compliance with the above-described provisions of the Code. The Charter Amendment provides that, subject to certain exceptions and the constructive ownership rules, no person may own, or be deemed to own by virtue of the attribution provisions of the Code, in excess of (i) 9.8% in value of the outstanding shares of all classes or series of our capital stock or (ii) 9.8% in value or number (whichever is more restrictive) of the outstanding shares of any class of our common stock.



## Table of Contents

In addition, our Tax Receivable Agreement with the Continuing LCFH Limited Partners (the “TRA Members”) was amended and restated in connection with our REIT Election, effective as of December 31, 2014 (the “TRA Amendment”), in order to preserve a portion of the potential tax benefits currently existing under the Tax Receivable Agreement that would otherwise be reduced in connection with our REIT Election. The TRA Amendment provides that, in lieu of the existing tax benefit payments under the Tax Receivable Agreement for the 2015 taxable year and beyond, LC TRS I will pay to the TRA Members 85% of the amount of the benefits, if any, that LC TRS I realizes or under certain circumstances (such as a change of control) is deemed to realize as a result of (i) the increases in tax basis resulting from the TRS Exchanges by the TRA Members, (ii) any incremental tax basis adjustments attributable to payments made pursuant to the TRA Amendment, and (iii) any deemed interest deductions arising from payments made by LC TRS I under the TRA Amendment. Under the TRA Amendment, LC TRS I expects to benefit from the remaining 15% of cash savings in income tax that it realizes, which is in the same proportion realized by the Company under the existing Tax Receivable Agreement. The purpose of the TRA Amendment was to preserve the benefits of the Tax Receivable Agreement to the extent possible in a REIT, although, as a result, the amount of payments made to the TRA Members under the TRA Amendment is expected to be less than would be made under the prior Tax Receivable Agreement. The TRA Amendment continues to share such benefits in the same proportions and otherwise has substantially the same terms and provisions as the prior Tax Receivable Agreement. See Note 2 and Note 16 for further discussion of the Tax Receivable Agreement.

As of March 4, 2015, the Company has made the necessary TRS and check-the-box elections and intends to elect to be taxed as a REIT on its tax return for the year ended December 31, 2015, expected to be filed in September 2016.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting and Principles of Combination and Consolidation

The accompanying combined consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). In the opinion of management, the unaudited financial information for the interim periods presented in this report reflects all normal and recurring adjustments necessary for a fair statement of results of operations, financial position and cash flows. The interim combined consolidated financial statements should be read in conjunction with the audited combined consolidated financial statements for the year ended December 31, 2014, which are included in the Company’s Annual Report on Form 10-K (“Annual Report”), as certain disclosures would substantially duplicate those contained in the audited combined consolidated financial statements have not been included in this interim report. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The interim combined consolidated financial statements have been prepared, without audit, and do not necessarily include all information and footnotes necessary for a fair statement of our combined consolidated financial position, results of operations and cash flows in accordance with GAAP.

The combined consolidated financial statements include the Company’s accounts and those of its subsidiaries which are majority-owned and/or controlled by the Company and variable interest entities for which the Company has determined itself to be the primary beneficiary, if any. All significant intercompany transactions and balances have been eliminated. The combined consolidated financial statements of the Company are comprised of the consolidation of LCFH and its wholly-owned and majority owned subsidiaries, prior to the IPO Transactions, and the consolidated financial statements of Ladder Capital Corp, subsequent to the IPO Transactions.

Accounting Standards Codification (“ASC”) Topic 810 — Consolidation (“ASC 810”), provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise, if any, should consolidate the VIEs. Generally, the consideration of whether an entity is a VIE applies when either: (1) the equity investors (if any) lack one or more of

the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined by the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the variable interest entity's performance; and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. As of March 31, 2015, the Company does not have investments in VIEs.

## Table of Contents

Noncontrolling interests in consolidated subsidiaries are defined as “the portion of the equity (net assets) in the subsidiaries not attributable, directly or indirectly, to a parent.” Noncontrolling interests are presented as a separate component of capital in the combined consolidated balance sheets. In addition, the presentation of net income attributes earnings to shareholders/unitholders (controlling interest) and noncontrolling interests.

### Use of Estimates

The preparation of the combined consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the balance sheets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of resulting changes are reflected in the combined consolidated financial statements in the period the changes are deemed to be necessary. Significant estimates made in the accompanying combined consolidated financial statements include, but are not limited to the following:

- valuation of real estate securities;
- allocation of purchase price for acquired real estate;
- impairment, and useful lives, of real estate;
- useful lives of intangible assets;
- valuation of derivative instruments;
- valuation of deferred tax asset;
- amounts payable pursuant to the Tax Receivable Agreement;
- determination of effective yield for recognition of interest income;
- adequacy of provision for loan losses;
- determination of other than temporary impairment of real estate securities and investments in unconsolidated joint ventures;
- certain estimates and assumptions used in the accrual of incentive compensation and calculation of the fair value of equity compensation issued to employees;
- determination of the effective tax rate for income tax provision; and
- certain estimates and assumptions used in the allocation of revenue and expenses for our segment reporting.

### Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less, at the time of acquisition, to be cash equivalents. The Company maintains cash accounts at several financial institutions, which are insured up to a maximum of \$250,000 per account as of March 31, 2015 and December 31, 2014. At March 31, 2015 and December 31, 2014 and at various times during the years, balances exceeded the insured limits.

### Cash Collateral Held by Broker

The Company maintains accounts with brokers to facilitate financial derivative and repurchase agreement transactions in support of its loan and securities investments and risk management activities. Based on the value of the positions in these accounts and the associated margin requirements, the Company may be required to deposit additional cash into these broker accounts. The cash collateral held by broker is considered restricted cash.

### Restricted Cash

Edgar Filing: Ladder Capital Corp - Form 10-Q

As of March 31, 2015 and December 31, 2014, included in other assets on the Company's combined consolidated balance sheets are \$33.2 million and \$24.4 million, respectively, of tenant security deposits, deposits related to real estate sales and acquisitions and required escrow balances on credit facilities, which are considered restricted cash.

## Table of Contents

### Revision

The Company had previously incorrectly included due to broker and due from broker amounts, which represent amounts related to purchases and sales of securities that had not settled as of the end of the period, as cash provided by (used in) operating activities rather than as non-cash investing activities. These transactions generally settle in three business days. Management evaluated the impact of the correction to the previously issued financial statements and concluded the effect was not material. However, for comparative purposes, the Company has revised the amounts in the prior quarter.

### Recently Issued and Adopted Accounting Pronouncements

In April 2015, the Federal Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

Early adoption of this ASU is permitted for financial statements that have not been previously issued. Entities must apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). This ASU makes changes to the VIE model and voting interest (“VOE”) model consolidation guidance. The main provisions of the ASU include the following: i) adding a requirement that limited partnerships and similar legal entities must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to qualify as a VOE rather than a VIE; ii) eliminating the presumption that the general partner should consolidate a limited partnership; iii) eliminating certain conditions that need to be met when evaluating whether fees paid to a decision maker or service provider are considered a variable interest; iv) excluding certain fees paid to decision makers or service providers when evaluating which party is the primary beneficiary of a VIE; and v) revising how related parties are evaluated under the VIE guidance. Lastly, the ASU eliminates the indefinite deferral of FAS 167, which allowed reporting entities with interests in certain investment funds to follow previous guidance in FIN 46 (R). However, the ASU permanently exempts reporting entities from consolidating registered money market funds that operate in accordance with Rule 2a-7 of the Investment Company Act. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply this ASU either using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning period of adoption or retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted provided that the ASU is applied from the beginning of the fiscal year of adoption. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). The guidance in ASU 2014-15 sets forth management’s responsibility to evaluate whether there is substantial doubt about an entity’s

ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, and, if applicable, whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The Company anticipates adopting this update in the quarter ending March 31, 2017 and does not expect the adoption to have a material impact on the Company's combined consolidated financial statements.

Table of Contents

In August 2014, FASB issued ASU 2014-14, Receivables-Trouble Debt Restructurings by Creditor (ASC Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure (“ASU 2014-14”). The guidance in ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance is effective for fiscal years beginning after December 15, 2014, and the interim periods within those fiscal years. An entity should adopt the amendments in ASU 2014-14 using either a prospective transition method or a modified retrospective transition method. Early adoption, including adoption in an interim period, is permitted if the entity already has adopted ASU 2014-4. The Company adopted this update in the quarter ended March 31, 2015 and the adoption did not have a material effect on the Company’s combined consolidated financial condition, results of operations or cash flows.

In August 2014, FASB issued ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (“ASU 2014-13”). For entities that consolidate a collateralized financing entity within the scope of this update, an option to elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in ASU 2014-13 or Topic 820 on fair value measurement is provided. The guidance is effective for fiscal years beginning after December 15, 2015, and the interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period. The Company anticipates adopting this update in the quarter ended March 31, 2016 and does not expect the adoption to have a material effect on the Company’s combined consolidated financial condition, results of operations or cash flows.

In June 2014, FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force (“ASU 2014-12”). ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes likely to be achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for all entities for interim and annual periods beginning after December 15, 2015, with early adoption permitted. An entity may apply the amendments in ASU 2014-12 either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial condition or results of operations.

In June 2014, FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures (“ASU 2014-11”). The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other

repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is not permitted. The Company adopted this update in the quarter ending March 31, 2015 and the adoption did not have a material effect on the Company's combined consolidated financial condition, results of operations or cash flows.



Table of Contents

In May 2014, FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-9”). ASU 2014-9 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-9, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-9 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. The Company anticipates adopting this update in the quarter ending March 31, 2017 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial condition or results of operations.

## 3. MORTGAGE LOAN RECEIVABLES

March 31, 2015 (\$ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)	Remaining Maturity (years)
Mortgage loan receivables held for investment, at amortized cost	\$1,793,084	\$1,778,256	7.28	% 1.81
Provision for loan losses	N/A	(3,250 )		
Total mortgage loan receivables held for investment, at amortized cost	1,793,084	1,775,006		
Mortgage loan receivables held for sale	250,376	250,583	3.92	% 6.94
Total	\$2,043,460	\$2,025,589		

(1) March 31, 2015 yields are used to calculate weighted average yield for floating rate loans.

As of March 31, 2015, \$240.0 million, or 13.5%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and \$1.5 billion, or 86.5%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at variable interest rates, linked to LIBOR, some of which include interest rate floors. As of March 31, 2015, \$250.6 million, or 100.0%, of the carrying value of our mortgage loan receivables held for sale, were at fixed interest rates.

December 31, 2014 (\$ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)	Remaining Maturity (years)
Mortgage loan receivables held for investment, at amortized cost	\$1,536,923	\$1,524,153	7.33	% 1.96
Provision for loan losses	N/A	(3,100 )		
Total mortgage loan receivables held for investment, at amortized cost	1,536,923	1,521,053		
Mortgage loan receivables held for sale	417,955	417,955	4.31	% 9.72
Total	1,954,878	1,939,008		

(1) December 31, 2014 yields are used to calculate weighted average yield for floating rate loans.

As of December 31, 2014, \$231.9 million, or 15.2%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and \$1.3 billion, or 84.8%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at variable interest rates, linked to LIBOR, some of which include interest rate floors. As of December 31, 2014, \$418.0 million, or 100%, of the carrying value of our mortgage loan receivables held for sale, were at fixed interest rates.

Table of Contents

The following table summarizes mortgage loan receivables by loan type (\$ in thousands):

	March 31, 2015		December 31, 2014	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount	Carrying Value
Mortgage loan receivables held for sale				
First mortgage loan	\$250,376	\$250,583	\$417,955	\$417,955
Total mortgage loan receivables held for sale	250,376	250,583	417,955	417,955
Mortgage loan receivables held for investment, at amortized cost				
First mortgage loan	1,545,716	1,532,646	1,373,476	1,361,754
Mezzanine loan	247,368	245,610	163,447	162,399
Total mortgage loan receivables held for investment, at amortized cost	1,793,084	1,778,256	1,536,923	1,524,153
Provision for loan losses	N/A	(3,250	) N/A	(3,100
Total	\$2,043,460	\$2,025,589	\$1,954,878	\$1,939,008

For the three months ended March 31, 2015 and 2014 the activity in our loan portfolio was as follows (\$ in thousands):

	Mortgage loan receivables held for investment, at amortized cost	Mortgage loan receivables held for sale
Balance December 31, 2014	\$ 1,521,054	\$417,955
Origination of mortgage loan receivables	378,042	391,934
Repayment of mortgage loan receivables	(125,531	) (164
Proceeds from sales of mortgage loan receivables	—	(589,169
Realized gain on sale of mortgage loan receivables	—	30,027
Transfer between held for investment and held for sale	—	—
Accretion/amortization of discount, premium and other fees	1,591	—
Loan loss provision	(150	) —
Balance March 31, 2015	\$ 1,775,006	\$250,583
	Mortgage loan receivables held for investment, at amortized cost	Mortgage loan receivables held for sale
Balance December 31, 2013	\$ 539,078	\$440,490
Origination of mortgage loan receivables	147,571	463,575
Repayment of mortgage loan receivables	(12,336	) (316
Proceeds from sales of mortgage loan receivables	—	(783,762
Realized gain on sale of mortgage loan receivables	—	41,303
Transfer between held for investment and held for sale	—	—

Edgar Filing: Ladder Capital Corp - Form 10-Q

Accretion/amortization of discount, premium and other fees	817	817
Loan loss provision	(150	) —
Balance March 31, 2014	\$ 674,980	\$ 162,107

During the three months ended March 31, 2015 and 2014, the transfers of financial assets via sales of loans have been treated as sales under ASC 860.

Table of Contents

The Company evaluates each of its loans for potential losses at least quarterly. Its loans are typically collateralized by real estate directly or indirectly. As a result, the Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the collateral property is located. Such impairment analyses are completed and reviewed by asset management personnel, who utilize various data sources, including (i) periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, the borrowers' business plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and other market data. As a result of this analysis, the Company has concluded that none of its loans are individually impaired as of March 31, 2015 and December 31, 2014.

However, based on the inherent risks shared among the loans as a group, it is probable that the loans had incurred an impairment due to common characteristics and inherent risks in the portfolio. Therefore, the Company has recorded a reserve, based on a targeted percentage level which it seeks to maintain over the life of the portfolio, as disclosed in the tables below. Historically, the Company has not incurred losses on any originated loans. At March 31, 2015 and December 31, 2014, there was \$4.2 million and \$4.2 million, respectively, of unamortized discounts included in our mortgage loan receivables held for investment, at amortized cost on our combined consolidated balance sheets.

At March 31, 2015 and December 31, 2014, there was one loan on non-accrual status with an amortized cost of \$4.6 million and an unamortized discount of \$3.5 million included in our mortgage loan receivables held for investment, at amortized cost on our combined consolidated balance sheets. This loan was not originated by the Company. Instead it was credit impaired at the time of acquisition, which was reflected in Ladder's purchase price.

## Provision for Loan Losses (\$ in thousands)

	Three Months Ended March 31,	
	2015	2014
Provision for loan losses at beginning of period	\$3,100	\$2,500
Provision for loan losses	150	150
Charge-offs	—	—
Provision for loan losses at end of period	\$3,250	\$2,650

Table of Contents

## 4. REAL ESTATE SECURITIES

Commercial mortgage-backed securities (“CMBS”), CMBS interest-only securities, GN construction securities and GN permanent securities are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income. Government National Mortgage Association (“GNMA”) and Federal Home Loan Mortgage Corp (“FHLMC”) securities (collectively, “Agency interest-only securities”), are recorded at fair value with changes in fair value recorded in current period earnings. The following is a summary of the Company’s securities at March 31, 2015 and December 31, 2014 (\$ in thousands):

March 31, 2015

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value	# of Securities	Weighted Average			Remaining Duration (years)
			Gains	Losses			Rating (2)	Coupon	Yield	
CMBS(3)	\$2,089,057	\$2,118,376	\$43,568	\$(223)	\$2,161,721	143	AAA	3.33%	2.38%	4.00
CMBS interest-only(3)	6,821,719	(1)357,427	5,338	(36)	362,729	45	AAA	0.97%	3.67%	3.35
GNMA interest-only(4)	1,309,779	(1)59,921	894	(3,080)	57,735	34	AA+	0.82%	5.75%	5.51
GN construction securities(3)	30,064	30,754	549	(310)	30,993	4	AA+	3.88%	3.59%	9.28
GN permanent securities(3)	10,162	10,437	262	—	10,699	10	AA+	5.69%	4.98%	4.30
Total	\$10,260,781	\$2,576,915	\$50,611	\$(3,649)	\$2,623,877					

December 31, 2014

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value	# of Securities	Weighted Average			Remaining Duration (years)
			Gains	Losses			Rating (2)	Coupon	Yield	
CMBS(3)	\$2,247,565	\$2,277,995	\$28,453	\$(1,038)	\$2,305,410	145	AAA	3.31%	2.60%	4.23
CMBS interest-only(3)	7,239,503	(1)376,085	2,973	(723)	378,335	41	AAA	1.04%	4.88%	3.45
GNMA interest-only(4)	1,400,141	(1)67,544	1,035	(1,937)	66,642	34	AA+	0.85%	5.90%	4.50
GN construction securities(3)	27,538	28,178	503	(275)	28,406	4	AA+	3.89%	3.56%	9.42
GN permanent securities(3)	36,232	36,515	258	—	36,773	11	AA+	5.49%	4.94%	1.32
Total	\$10,950,979	\$2,786,317	\$33,222	\$(3,973)	\$2,815,566					

(1)

## Edgar Filing: Ladder Capital Corp - Form 10-Q

The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.

- (2) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the highest rating is used. Ratings provided were determined by third party rating agencies as of a particular date, may not be current and are subject to change (including the assignment of a “negative outlook” or “credit watch”) at any time.

- (3) CMBS, CMBS interest-only securities, GN construction securities, and GN permanent securities are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.

- (4) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

Table of Contents

The following is a breakdown of the carrying value of the Company's securities by remaining maturity based upon expected cash flows at March 31, 2015 and December 31, 2014 (\$ in thousands):

## March 31, 2015

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	\$524,755	\$685,646	\$941,069	\$10,251	\$2,161,721
CMBS interest-only(1)	327	362,402	—	—	362,729
GNMA interest-only(2)	—	26,936	29,746	1,053	57,735
GN construction securities(1)	—	993	30,000	—	30,993
GN permanent securities(1)	—	9,179	1,520	—	10,699
Total	\$525,082	\$1,085,156	\$1,002,335	\$11,304	\$2,623,877

## December 31, 2014

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	\$474,357	\$814,702	\$1,016,351	\$—	\$2,305,410
CMBS interest-only(1)	391	370,993	6,951	—	378,335
GNMA interest-only(2)	1,356	42,105	23,181	—	66,642
GN construction securities(1)	—	507	5,183	22,716	28,406
GN permanent securities(1)	25,915	9,334	1,524	—	36,773
Total	\$502,019	\$1,237,641	\$1,053,190	\$22,716	\$2,815,566

CMBS, CMBS interest-only securities, GN construction securities, and GN permanent securities are classified as (1) available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.

(2) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

There were \$0.5 million in unrealized losses on securities recorded as other than temporary impairments for the three months ended March 31, 2015, included in realized gain on securities in the combined consolidated statements of income. There were no unrealized losses on securities recorded as other than temporary impairments for the three months ended March 31, 2014. For cash flow statement purposes, all receipts of interest from interest-only real estate securities are treated as part of cash flows from operations.



Table of Contents

## 5. REAL ESTATE AND RELATED LEASE INTANGIBLES, NET

## Acquisitions

The purchase price for certain of the Company's 2015 acquisitions was allocated to the assets acquired and liabilities assumed based upon their preliminary estimated fair values, which are based on management's best estimates to date. The Company is in the process of finalizing its assessment of the fair value of the assets acquired and liabilities assumed.

During the three months ended March 31, 2015, the Company acquired the following properties (\$ in thousands):

Acquisition Date	Type	Primary Location(s)	Purchase Price	Purchase Price Allocation				Ownership Interest (1)
				Land	Building	Intangibles	Properties	
Jan 2015	Net Lease	Jacksonville, NC	\$7,878	\$1,762	\$5,152	\$ 964	1	100.0%
Jan 2015	Net Lease	Iberia, MO	1,328	130	1,033	165	1	100.0%
Jan 2015	Net Lease	Isle, MN	1,078	120	787	171	1	100.0%
Jan 2015	Net Lease	Pine Island, MN	1,142	112	845	185	1	100.0%
Jan 2015	Net Lease	Kings Mountain, NC	21,241	1,368	19,533	340	1	100.0%
Feb 2015	Net Lease	Village of Menomonee Falls, WI	17,050	658	14,988	1,404	1	100.0%
Feb 2015	Net Lease	Rockland, MA	7,315	2,684	3,821	810	1	100.0%
Feb 2015	Net Lease	Crawfordsville, IA	6,000	347	4,975	678	1	100.0%
Feb 2015	Net Lease	Boardman Township, OH	5,400	380	4,362	658	1	100.0%
Mar 2015	Net Lease	Hilliard, OH	6,384	654	4,870	860	1	100.0%
Mar 2015	Net Lease	Weathersfield Township, OH	5,200	437	4,084	679	1	100.0%
Mar 2015	Net Lease	Rotterdam, NY	12,000	2,406	7,535	2,059	1	100.0%
Mar 2015	Net Lease	Wheaton, MO	970	73	800	97	1	100.0%
Mar 2015	Net Lease	Paynesville, MN	1,254	246	816	192	1	100.0%
Mar 2015	Net Lease	Loveland, CO	5,600	471	4,371	758	1	100.0%
Mar 2015	Net Lease	Battle Lake, MN	1,098	136	875	87	1	100.0%
Mar 2015	Net Lease	Yorktown, TX	1,207	97	1,005	105	1	100.0%
Mar 2015	Net Lease	St. Francis, MN	1,117	105	911	101	1	100.0%
Totals			\$103,262	\$12,186	\$80,763	\$ 10,313		

(1) Properties were consolidated as of acquisition date.

During the three months ended March 31, 2014, there were no acquisitions of properties.

## Sales

The Company sold the following properties during the three months ended March 31, 2015 (\$ in thousands):

Type	Properties	Units
------	------------	-------

Edgar Filing: Ladder Capital Corp - Form 10-Q

Sales Date	Primary Location(s)	Net Sales Proceeds	Net Book Value	Realized Gain/(Loss)		
Various	Condominium Las Vegas, NV	12,210	6,777	5,433	—	25
Various	Condominium Miami, FL	9,857	7,628	2,229	—	33
Totals		\$22,067	\$14,405	\$7,662		

24

---

Table of Contents

The Company sold the following properties during the three months ended March 31, 2014 (\$ in thousands):

Sales Date	Type	Primary Location(s)	Net Sales Proceeds	Net Book Value	Realized Gain/(Loss)	Properties	Units
Various	Condominium	Las Vegas, NV	18,900	12,487	6,413	—	44
Various	Condominium	Miami, FL	1,193	905	288	—	4
Totals			\$20,093	\$13,392	\$6,701		

## Real Estate Held for Sale

During the three months ended March 31, 2015, the Company entered into purchase and sale agreements to sell three single-tenant retail properties, subject to long-term net lease obligations. The Company expects the sale of these properties to occur on or before May 18, 2015 and has designated these properties as real estate held for sale in the combined consolidated statements of financial condition. The real estate held for sale, recorded at carrying value, is \$21.9 million as of March 31, 2015.

## Real Estate Sold or Classified as Held for Sale

On January 1, 2014, the Company early adopted ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, and as the properties sold or classified as real estate held for sale in the three months ended March 31, 2015 will not represent a strategic shift (as the Company is not entirely exiting markets or property types), they have not been reflected as part of discontinued operations.

The following table summarizes income from the properties sold or classified as held for sale during the three months ended March 31, 2015 and 2014 (\$ in thousands):

	Three Months Ended March 31,	
	2015	2014
Operating lease income	\$355	\$313
Tenant recoveries	—	—
Depreciation and amortization	(698)	(362)
Income from properties sold	\$(343)	\$(49)

Table of Contents

The following unaudited pro forma information has been prepared based upon our historical combined consolidated financial statements and certain historical financial information of the acquired properties, which are accounted for as business combinations, and should be read in conjunction with the combined consolidated financial statements and notes thereto. The unaudited pro forma combined consolidated financial information reflects the 2014 acquisition adjustments made to present financial results as though the acquisition of the properties occurred on January 1, 2013 and the 2015 acquisition adjustments made to present financial results as though the acquisition of the properties occurred on January 1, 2014. This unaudited pro forma information may not be indicative of the results that actually would have occurred if these transactions had been in effect on the dates indicated, nor do they purport to represent our future results of operations. (\$ in thousands)

	Three Months Ended March 31, 2015		
	Company Historical	Acquisitions	Consolidated Pro Forma
Operating lease income	\$19,147	\$871	\$20,018
Net income	17,963	454	18,417
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(191	) —	(191 )
Net (income) loss attributable to predecessor unitholders	—	—	—
Net (income) loss attributable to noncontrolling interest in operating partnership	(8,597	) (222	) (8,819 )
Net income attributable to Class A common shareholders	9,175	231	9,406
	Three Months Ended March 31, 2014		
	Company Historical	Acquisitions	Consolidated Pro Forma
Operating lease income	\$13,213	\$1,633	\$14,846
Net income	18,401	318	18,719
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	191	—	191
Net (income) loss attributable to predecessor unitholders	12,628	—	12,628
Net (income) loss attributable to noncontrolling interest in operating partnership	(18,568	) (156	) (18,724 )
Net income attributable to Class A common shareholders	12,652	162	12,814

The most significant adjustments made in preparing the unaudited pro forma information were to: (i) include the incremental operating lease income, (ii) include the incremental depreciation, and (iii) adjust for transaction costs associated with the properties acquired.

## Real Estate and Related Lease Intangibles, Net

The following table presents additional detail related to our real estate portfolio (\$ in thousands):

	March 31, 2015	December 31, 2014
Land	\$133,611	\$122,458
Building	637,150	569,774

Edgar Filing: Ladder Capital Corp - Form 10-Q

In-place leases and other intangibles	140,788	127,359	
Real estate	911,549	819,591	
Less: Accumulated depreciation and amortization	(60,116	) (50,605	)
Real estate held for sale and real estate and related lease intangibles, net	\$851,433	\$768,986	

26

---

Table of Contents

The following table presents depreciation and amortization expense on real estate recorded by the Company (\$ in thousands):

	Three Months Ended March 31,	
	2015	2014
Depreciation expense (1)	\$5,906	\$4,842
Amortization expense	3,812	2,448
Total real estate depreciation and amortization expense	\$9,718	\$7,290

(1) Depreciation expense on the combined consolidated statements of income also includes \$5,187 and \$137,023 of depreciation on corporate fixed assets for the three months ended March 31, 2015 and 2014, respectively.

The Company's intangible assets are comprised of in-place leases, favorable leases compared to market leases and other intangibles. At March 31, 2015, gross intangible assets totaled \$140.8 million with total accumulated amortization of \$23.9 million, resulting in net intangible assets of \$106.3 million, including \$7.0 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the combined consolidated balance sheets. At December 31, 2014, gross intangible assets totaled \$127.4 million with total accumulated amortization of \$19.9 million, resulting in net intangible assets of \$107.5 million, including \$7.4 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the combined consolidated balance sheets. For the three months ended March 31, 2015, the Company recorded an offset against operating lease income of \$0.4 million for favorable leases, compared to \$0.4 million for the three months ended March 31, 2014.

The following table presents expected amortization expense during the next five years and thereafter related to the acquired in-place lease intangibles for property owned as of March 31, 2015 (\$ in thousands):

Period Ended December 31,	Amount
2015 (last 9 months)	\$13,105
2016	15,447
2017	11,333
2018	9,386
2019	9,067
Thereafter	58,558
Total	\$116,896

There were \$3.6 million and \$3.0 million of unbilled rent receivables included in other assets on the combined consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively.

There was unencumbered real estate of \$99.6 million and \$85.7 million as of March 31, 2015 and December 31, 2014, respectively.

Table of Contents

The following is a schedule of contractual future minimum rent under leases (excluding property operating expenses paid directly by tenant under net leases or rent escalations under other leases from tenants) at March 31, 2015 (\$ in thousands):

Period Ended December 31,	Amount
2015 (last 9 months)	\$53,320
2016	65,282
2017	61,777
2018	59,040
2019	54,446
Thereafter	482,670
Total	\$776,535

## 6. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of March 31, 2015, the Company had an aggregate investment of \$2.8 million in its equity method joint ventures with unaffiliated third parties.

As of March 31, 2015, the Company owned a 10% limited partnership interest in Ladder Capital Realty Income Partnership I LP (“LCRIP I”) to invest in first mortgage loans held for investment and acted as general partner and Manager to LCRIP I. The Company accounts for its interest in LCRIP I using the equity method of accounting as it exerts significant influence but the unrelated limited partners have substantive participating rights as well as kick-out rights.

As of March 31, 2015, the Company owned a 25% membership interest in Grace Lake JV, LLC (“Grace Lake JV”) which it received in connection with the refinancing of a first mortgage loan on an office building campus in Van Buren Township, MI. The Company accounts for its interest in Grace Lake JV using the equity method of accounting as it has a 25% investment, compared to the 75% investment of its operating partner.

The following is a summary of the Company’s investments in unconsolidated joint ventures, which we account for using the equity method, as of March 31, 2015 and December 31, 2014 (\$ in thousands):

Entity	March 31, 2015	December 31, 2014
Ladder Capital Realty Income Partnership I LP	\$421	\$3,898
Grace Lake JV, LLC	2,407	2,143
Company’s investment in unconsolidated joint ventures	\$2,828	\$6,041

The following is a summary of the Company’s allocated earnings based on its ownership interests from investment in unconsolidated joint ventures for the three months ended March 31, 2015 and 2014 (\$ in thousands):

Entity	Three Months Ended March 31,	
	2015	2014
Ladder Capital Realty Income Partnership I LP	\$102	\$123
Grace Lake JV, LLC	339	225
Earnings from investment in unconsolidated joint ventures	\$441	\$348





Table of Contents

Ladder Capital Realty Income Partnership I LP

On April 15, 2011, the Company entered into a limited partnership agreement becoming the general partner and acquiring a 10% limited partnership interest in LCRIP I. Simultaneously with the execution of the LCRIP I Partnership agreement, the Company was engaged as the manager of LCRIP I and is entitled to a fee based upon the average net equity invested in LCRIP I, which is subject to a fee reduction in the event average net equity invested in LCRIP I exceeds \$100.0 million. During the three months ended March 31, 2015 and 2014, the Company recorded \$62,483 and \$134,460, respectively, in management fees, which is reflected in fee income in the combined consolidated statements of income.

During the three months ended March 31, 2015 and 2014, there were no sales of loans to LCRIP I. It is the Company's policy to defer 10% of the gain on any sale of loans to LCRIP I, representing its 10% limited partnership interest, until such loans are subsequently sold by LCRIP I or paid off.

The Company is entitled to income allocations and distributions based upon its limited partnership interest of 10% and is eligible for additional distributions of up to 25% if certain return thresholds are met upon asset sale, full prepayment or other disposition. During the three months ended March 31, 2015 and 2014, the return thresholds were met on certain assets that have been fully realized. The Company is obligated to provide LCRIP I 10% of any costs related to the assets held in its portfolio as of March 31, 2015.