Back to Index

RESOURCE AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011
(unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF QUARTERLY PRESENTATION

Resource America, Inc. (the "Company") (NASDAQ: REXI) is a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its real estate, financial fund management, and commercial finance operating segments. As a specialized asset manager, the Company seeks to develop investment funds for outside investors for which the Company provides asset management services, typically under long-term management and operating arrangements either through a contract with, or as the manager or general partner of, the sponsored fund. The Company limits its investment funds to investment areas where it owns existing operating companies or has specific expertise. The Company manages assets on behalf of institutional and individual investors and Resource Capital Corp. ("RCC") (NYSE: RSO), a diversified real estate finance company that qualifies as a real estate investment trust ("REIT").

LEAF Commercial Capital, Inc. ("LEAF"). In January 2011, the Company formed LEAF to conduct its equipment lease origination and servicing operations and to obtain outside equity and debt financing sources. LEAF Financial Corporation retained the management of the four equipment leasing partnerships, which are sub-serviced by LEAF. On November 16, 2011, the Company and LEAF, together with RCC, entered into a stock purchase agreement and related agreements (collectively the "November 2011 LCC Transaction") with Eos Partners, L.P., a private investment firm, and its affiliates ("Eos"). Pursuant to the November 2011 LCC Transaction, Eos invested $50.0 million in cash in LEAF in exchange for 50,000 shares of newly-issued 12% Series A Participating Preferred Stock (the "Series A Preferred Stock") and warrants to purchase 2,954 shares of LEAF common stock for an exercise price of $0.01 per share, collectively representing, on a fully-diluted basis, a 45.1% interest in LEAF. In exchange for its prior interest in LEAF, RCC received 31,341 shares of Series A Preferred Stock, 4,872 shares of newly-issued 8% Series B Redeemable Preferred Stock (the "Series B Preferred Stock") and 2,364 shares of newly-issued Series D Redeemable Preferred Stock (the "Series D Preferred Stock"), collectively representing, on a fully-diluted basis, a 26.7% interest in LEAF. The Company retained 18,414 shares of LEAF common stock, representing a fully-diluted interest of 15.7%, and senior management of LEAF maintained a 10% fully-diluted interest. As a result of the November 2011 LCC Transaction, the Company deconsolidated LEAF (see Note 3) and has accounted for its investment in LEAF on the equity method beginning on November 17, 2011.

The Company utilized several approaches, including discounted expected cash flows, market approach and comparable sales transactions to estimate the fair value of its investment in LEAF as a result of the transaction. These approaches required assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates, which were based on the current economic environment and credit market conditions. The Company's investment in LEAF was valued at $1.7 million based on a third-party valuation. Accordingly, the Company recorded a gain of $8.7 million in conjunction with the transaction and resulting deconsolidation of LEAF. Based upon terms in the November 2011 LCC Transaction, the Company calculated its share of losses incurred by LEAF for the period November 17, 2011 to December 31, 2011 using the equity method of accounting based upon its share of common stock ownership of LEAF during that period.

On December 29, 2011, the Company entered into a sale and purchase agreement and related agreements, collectively the ("SPA"), with CVC Capital Partners SICAV-FIS, S.A. ("CVC"), pursuant to which the Company will sell 100% of the common equity interests of Apidos Capital Management, LLC ("Apidos"), its CLO management subsidiary, to CVC in exchange for (i) $25 million in cash, (ii) a 33% limited partner interest in CVC Credit Partners, L.P, a newly-formed Cayman Islands limited partnership to be jointly owned by the Company and CVC (the "Partnership"), and (iii) a 33% interest in the Partnership's general partner, a Jersey corporation ("the General Partner"). Prior thereto, CVC will have contributed to the Partnership its credit management subsidiary, CVC Cordatus Group Limited ("Cordatus"). The Company will retain a preferred equity interest in Apidos, which will entitle the Company to receive distributions from the Partnership equal to 75% of the incentive management fees from the legacy Apidos portfolios. Consummation of the transactions contemplated by the SPA is subject to UK Financial Services Authority and Jersey Financial Services Commission approvals and receipt of certain third-party consents and rating agency confirmations that the transaction will not lead to a downgrade of some of the Apidos CLO obligations. If the regulatory approvals are not obtained by May 31, 2012, the SPA will automatically terminate.