

Edgar Filing: Ladder Capital Corp - Form 10-Q

Ladder Capital Corp
Form 10-Q
August 05, 2016
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 June 30, 2016

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 10154
(Address of principal executive offices) (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 July 29, 2016
Class A Common Stock, \$0.001 par value	63,790,084
Class B Common Stock, \$0.001 par value	45,798,430

Table of Contents

LADDER CAPITAL CORP

FORM 10-Q
June 30, 2016

Index	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	<u>5</u>
<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>9</u>
<u>Combined Consolidated Statements of Changes in Equity</u>	<u>10</u>
<u>Combined Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Notes to Combined Consolidated Financial Statements</u>	<u>14</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>75</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>109</u>
<u>Item 4. Controls and Procedures</u>	<u>111</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>112</u>
<u>Item 1A. Risk Factors</u>	<u>112</u>
<u>Item 2. Unregistered Sales of Securities</u>	<u>112</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>112</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>112</u>
<u>Item 5. Other Information</u>	<u>112</u>
<u>Item 6. Exhibits</u>	<u>113</u>
<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 for the year ended December 31, 2015 (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 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>9</u>
<u>Combined Consolidated Statements of Changes in Equity</u>	<u>10</u>
<u>Combined Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Notes to Combined Consolidated Financial Statements</u>	<u>14</u>
<u>Note 1. Organization and Operations</u>	<u>14</u>
<u>Note 2. Significant Accounting Policies</u>	<u>17</u>
<u>Note 3. Mortgage Loan Receivables</u>	<u>23</u>
<u>Note 4. Real Estate Securities</u>	<u>26</u>
<u>Note 5. Real Estate and Related Lease Intangibles, Net</u>	<u>28</u>
<u>Note 6. Investment in Unconsolidated Joint Ventures</u>	<u>34</u>
<u>Note 7. Debt Obligations</u>	<u>36</u>
<u>Note 8. Fair Value of Financial Instruments</u>	<u>43</u>
<u>Note 9. Derivative Instruments</u>	<u>49</u>
<u>Note 10. Offsetting Assets and Liabilities</u>	<u>51</u>
<u>Note 11. Equity Structure and Accounts</u>	<u>52</u>
<u>Note 12. Noncontrolling Interests</u>	<u>56</u>
<u>Note 13. Earnings Per Share</u>	<u>58</u>
<u>Note 14. Stock Based Compensation Plans</u>	<u>60</u>
<u>Note 15. Income Taxes</u>	<u>66</u>
<u>Note 16. Related Party Transactions</u>	<u>68</u>
<u>Note 17. Commitments and Contingencies</u>	<u>68</u>
<u>Note 18. Segment Reporting</u>	<u>70</u>
<u>Note 19. Subsequent Events</u>	<u>74</u>

Table of Contents

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

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$81,415	\$ 108,959
Cash collateral held by broker	50,517	30,811
Mortgage loan receivables held for investment, net, at amortized cost	1,543,883	1,738,645
Mortgage loan receivables held for sale	583,453	571,764
Real estate securities, available-for-sale	2,700,210	2,407,217
Real estate and related lease intangibles, net	808,755	834,779
Investments in unconsolidated joint ventures	33,778	33,797
FHLB stock	77,915	77,915
Derivative instruments	218	2,821
Due from brokers	5,583	—
Accrued interest receivable	21,168	22,776
Other assets	80,478	65,728
Total assets	\$5,987,373	\$ 5,895,212
Liabilities and Equity		
Liabilities		
Debt obligations	\$4,394,969	\$ 4,274,723
Due to brokers	31	—
Derivative instruments	26,494	5,504
Amount payable pursuant to tax receivable agreement	1,910	1,910
Dividends payable	2,498	17,456
Accrued expenses	47,963	78,142
Other liabilities	27,409	26,069
Total liabilities	4,501,274	4,403,804
Commitments and contingencies (Note 17)	—	—
Equity		
Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 64,237,833 and 55,758,710 shares issued and 63,142,785 and 55,209,849 shares outstanding	64	55
Class B common stock, par value \$0.001 per share, 100,000,000 shares authorized; 46,445,729 and 44,055,987 shares issued and outstanding	46	44
Additional paid-in capital	871,387	776,866
Treasury stock, 1,095,048 and 548,861 shares, at cost	(11,244) (5,812
Retained Earnings/(Dividends in Excess of Earnings)	(41,104) 60,618
Accumulated other comprehensive income (loss)	31,956	(3,556
Total shareholders' equity	851,105	828,215
Noncontrolling interest in operating partnership	629,408	657,380
Noncontrolling interest in consolidated joint ventures	5,586	5,813
Total equity	1,486,099	1,491,408
Total liabilities and equity	\$5,987,373	\$ 5,895,212

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net interest income				
Interest income	\$55,766	\$59,239	\$115,366	\$115,622
Interest expense	28,402	27,487	57,938	54,311
Net interest income	27,364	31,752	57,428	61,311
Provision for loan losses	150	150	300	300
Net interest income after provision for loan losses	27,214	31,602	57,128	61,011
Other income				
Operating lease income	19,085	20,390	38,379	39,537
Tenant recoveries	1,324	2,510	2,659	5,036
Sale of loans, net	2,795	14,524	10,625	44,551
Realized gain (loss) on securities	2,971	11,017	2,398	23,167
Unrealized gain (loss) on Agency interest-only securities	(584)	(51)	76	(1,369)
Realized gain on sale of real estate, net	4,873	7,278	10,968	14,940
Fee and other income	6,181	3,833	9,156	7,374
Net result from derivative transactions	(24,642)	26,787	(75,504)	(12,352)
Earnings from investment in unconsolidated joint ventures	(168)	164	626	605
Gain on extinguishment of debt	—	—	5,382	—
Total other income (loss)	11,835	86,452	4,765	121,489
Costs and expenses				
Salaries and employee benefits	13,432	15,947	26,047	29,705
Operating expenses	4,713	6,734	11,008	15,537
Real estate operating expenses	8,925	9,628	14,644	19,001
Real estate acquisition costs	208	454	208	1,054
Fee expense	873	1,463	1,603	2,585
Depreciation and amortization	9,254	9,954	19,057	19,677
Total costs and expenses	37,405	44,180	72,567	87,559
Income (loss) before taxes	1,644	73,874	(10,674)	94,941
Income tax expense (benefit)	(2,301)	5,177	(3,174)	8,282
Net income (loss)	3,945	68,697	(7,500)	86,659
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(235)	684	(2)	493
Net (income) loss attributable to noncontrolling interest in operating partnership	(908)	(35,171)	4,765	(43,768)
Net income (loss) attributable to Class A common shareholders	\$2,802	\$34,210	\$(2,737)	\$43,384

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Earnings per share:				
Basic	\$0.05	\$ 0.68	\$(0.05)	\$ 0.86
Diluted	\$0.05	\$ 0.67	\$(0.05)	\$ 0.85
Weighted average shares outstanding:				
Basic	61,170,000	63,350,955	60,383,445	50,161,553
Diluted	61,976,962	62,929,538	60,383,448	48,148,577
Dividends per share of Class A common stock (Note 11):	\$0.275	\$ 0.25	\$0.550	\$ 0.50

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$3,945	\$68,697	\$(7,500)	\$86,659
Other comprehensive income (loss)				
Unrealized gain (loss) on securities, net of tax:				
Unrealized gain (loss) on real estate securities, available for sale (1)	30,439	(26,839)	64,833	4,035
Reclassification adjustment for (gains) included in net income (2)	(2,971)	(11,776)	(2,982)	(24,146)
Total other comprehensive income (loss)	27,468	(38,615)	61,851	(20,111)
Comprehensive income	31,413	30,082	54,351	66,548
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	(235)	684	(2)	493
Comprehensive income of combined Class A common shareholders and Operating Partnership unitholders	\$31,178	\$30,766	\$54,349	\$67,041
Comprehensive (income) attributable to noncontrolling interest in operating partnership	(12,547)	(16,925)	(21,791)	(34,436)
Comprehensive income attributable to Class A common shareholders	\$18,631	\$13,841	\$32,558	\$32,605

(1) Amounts are net of provision for income taxes of \$0.8 million for the six months ended June 30, 2015.

(2) Amounts are net of (provision for) income taxes of \$(0.3) million for the six months ended June 30, 2015.

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

Table of Contents

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

	Shareholders' Equity						Retained Earnings/(Dividends in Excess of Earnings)	Accumulated Comprehensive Income (Loss)	Noncontrolling Interests Operating Partnership	Interests Consolidated Joint Ventures	Total Shareholders' Equity/Partners Capital
	Class A Common Stock Shares	Par	Class B Common Stock Shares	Par	Additional Paid-in-Capital	Treasury Stock					
Balance, December 31, 2015	55,210	\$55	44,056	\$44	\$776,866	\$(5,812)	\$60,618	\$(3,556)	\$657,380	\$5,813	\$1,491,408
Contributions	—	—	—	—	—	—	—	—	250	—	250
Distributions	—	—	—	—	—	—	—	—	(26,704)	(229)	(26,933)
Equity based compensation	—	—	—	—	250	—	—	—	7,868	—	8,118
Grants of restricted stock	794	1	—	—	(1)	—	—	—	—	—	—
Purchase of treasury stock											