

Ladder Capital Corp  
Form 10-Q  
November 07, 2014  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-Q**

---

(Mark One)

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

**For the quarterly period ended September 30, 2014**

**Or**

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

**For the transition period from      to**

**Commission file number:  
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 ☐

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.

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

| Class                                   | Outstanding at November 1, 2014 |
|---|---------------------------------|
| Class A Common Stock, \$0.001 par value | 51,471,579                      |
| Class B Common Stock, no par value      | 47,655,160                      |

---

Table of Contents

**LADDER CAPITAL CORP**

**FORM 10-Q**

**September 30, 2014**

|  |    |
|--|----|
| <u>PART I - FINANCIAL INFORMATION</u>  | 4  |
| <u>Item 1. Financial Statements (Unaudited)</u>  | 4  |
| <u>Combined Consolidated Balance Sheets</u>  | 5  |
| <u>Combined Consolidated Statements of Income</u>  | 6  |
| <u>Combined Consolidated Statements of Comprehensive Income</u>                                      | 7  |
| <u>Combined Consolidated Statements of Changes in Equity/Capital</u>                                 | 8  |
| <u>Combined Consolidated Statements of Cash Flows</u>  | 9  |
| <u>Notes to Combined Consolidated Financial Statements</u>   | 10 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 53 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                            | 83 |
| <u>Item 4. Controls and Procedures</u>   | 85 |
| <u>PART II - OTHER INFORMATION</u>   | 86 |
| <u>Item 1. Legal Proceedings</u>   | 86 |
| <u>Item 1A. Risk Factors</u>   | 86 |
| <u>Item 2. Unregistered Sales of Securities</u>  | 86 |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 86 |
| <u>Item 4. Mine Safety Disclosures</u>   | 86 |
| <u>Item 5. Other Information</u>   | 86 |
| <u>Item 6. Exhibits</u>  | 87 |
| <u>SIGNATURES</u>  | 88 |

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 ( Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended ( 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, continue, and 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 on Form 10-Q 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;

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

- 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 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.

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.

Table of Contents

**REFERENCES TO LADDER CAPITAL CORP**

Ladder Capital Corp is a holding company and its primary asset is a controlling equity interest in Ladder Capital Finance Holdings LLLP ( LCFH or the Operating Partnership ). Unless the context suggests otherwise, references in this report to Ladder, Ladder Capital, the Company, we, and our refer (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 (or Predecessor ) and its 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>                          | 5  |
| <u>Combined Consolidated Statements of Income</u>                    | 6  |
| <u>Combined Consolidated Statements of Comprehensive Income</u>      | 7  |
| <u>Combined Consolidated Statements of Changes in Equity/Capital</u> | 8  |
| <u>Combined Consolidated Statements of Cash Flows</u>                | 9  |
| <u>Notes to Combined Consolidated Financial Statements</u>           | 10 |



Table of Contents
**Ladder Capital Corp and Predecessor**
**Combined Consolidated Balance Sheets**

(unaudited)

|  | September 30, 2014      | December 31, 2013       |
|--|-------------------------|-------------------------|
| <b>Assets</b>  |                         |                         |
| Cash and cash equivalents  | \$ 87,833,330           | \$ 78,742,257           |
| Cash collateral held by broker   | 54,524,990              | 28,520,788              |
| Mortgage loan receivables held for investment, net, at amortized cost  | 1,323,279,126           | 539,078,182             |
| Mortgage loan receivables held for sale  | 206,501,369             | 440,489,789             |
| Real estate securities, available-for-sale:  |                         |                         |
| Investment grade commercial mortgage backed securities   | 1,652,052,327           | 1,164,936,448           |
| GN construction securities   | 23,004,029              | 13,006,860              |
| GN permanent securities  | 39,312,154              | 113,216,186             |
| Interest-only securities   | 462,246,662             | 366,086,700             |
| Real estate, net   | 652,587,432             | 624,219,015             |
| Investments in unconsolidated joint ventures   | 5,938,241               | 9,262,762               |
| FHLB stock   | 59,740,000              | 49,450,000              |
| Derivative instruments   | 5,750,654               | 8,244,355               |
| Due from brokers   | 4,276                   | 1,503                   |
| Accrued interest receivable  | 21,074,036              | 14,971,167              |
| Other assets   | 79,944,556              | 38,837,255              |
| <b>Total assets</b>  | <b>\$ 4,673,793,182</b> | <b>\$ 3,489,063,267</b> |
| <b>Liabilities and Capital</b>   |                         |                         |
| <b>Liabilities</b>   |                         |                         |
| Repurchase agreements  | \$ 761,627,218          | \$ 609,834,793          |
| Mortgage loan financing  | 398,265,284             | 291,053,406             |
| Borrowings from the FHLB   | 1,291,000,000           | 989,000,000             |
| Senior unsecured notes   | 625,000,000             | 325,000,000             |
| Derivative instruments   | 7,529,568               | 7,031,033               |
| Amount payable pursuant to tax receivable agreement  | 672,235                 |                         |
| Accrued expenses   | 74,139,211              | 64,400,382              |
| Other liabilities  | 29,989,945              | 17,509,888              |
| <b>Total liabilities</b>   | <b>3,188,223,461</b>    | <b>2,303,829,502</b>    |
| <b>Commitments and contingencies</b>   |                         |                         |
| <b>Equity (capital)</b>  |                         |                         |
| Series A preferred units   |                         | 825,985,422             |
| Series B preferred units   |                         | 290,846,531             |
| Common units   |                         | 59,565,278              |
| Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 51,471,579 shares issued and outstanding | 51,471                  |                         |
| Class B common stock, no par value, 100,000,000 shares authorized; 47,656,143 shares issued and outstanding                |                         |                         |
| Additional paid-in capital   | 735,410,376             |                         |
| Retained earnings  | 39,813,107              |                         |
| Accumulated other comprehensive income/(loss)  | (2,043,445)             |                         |
| <b>Total shareholders equity (partners capital)</b>  | <b>773,231,509</b>      | <b>1,176,397,231</b>    |
| Noncontrolling interest in operating partnership   | 704,720,635             |                         |
| Noncontrolling interest in consolidated joint ventures   | 7,617,577               | 8,836,534               |
| <b>Total equity (capital)</b>  | <b>1,485,569,721</b>    | <b>1,185,233,765</b>    |

Edgar Filing: Ladder Capital Corp - Form 10-Q

|  |    |               |    |               |
|--|----|---------------|----|---------------|
| Total liabilities and equity (capital) | \$ | 4,673,793,182 | \$ | 3,489,063,267 |
|--|----|---------------|----|---------------|

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

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

## Table of Contents

### Ladder Capital Corp and Predecessor

### Combined Consolidated Statements of Income

(unaudited)

|  | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                    |
|--|----------------------------------|-------------------|---------------------------------|--------------------|
|  | 2014                             | 2013              | 2014                            | 2013               |
| <b>Net interest income</b>   |                                  |                   |                                 |                    |
| Interest income  | \$ 48,459,116                    | \$ 29,633,069     | \$ 130,393,530                  | \$ 91,062,175      |
| Interest expense   | 19,927,907                       | 12,554,368        | 51,520,832                      | 35,703,283         |
| <b>Net interest income</b>   | <b>28,531,209</b>                | <b>17,078,701</b> | <b>78,872,698</b>               | <b>55,358,892</b>  |
| Provision for loan losses  | 150,000                          | 150,000           | 450,000                         | 450,000            |
| <b>Net interest income after provision for loan losses</b>                               | <b>28,381,209</b>                | <b>16,928,701</b> | <b>78,422,698</b>               | <b>54,908,892</b>  |
| <b>Other income</b>  |                                  |                   |                                 |                    |
| Operating lease income   | 12,810,260                       | 10,235,147        | 38,826,961                      | 25,152,332         |
| Tenant recoveries  | 2,251,647                        | 974,500           | 6,474,024                       | 1,447,641          |
| Sale of loans, net   | 20,413,788                       | 22,225,041        | 107,135,195                     | 141,046,263        |
| Gain (loss) on securities  | 14,074,245                       | (1,394,468)       | 21,259,266                      | 4,481,847          |
| Sale of real estate, net   | 8,471,437                        | 3,524,727         | 24,224,538                      | 10,887,448         |
| Fee income   | 2,715,223                        | 1,721,994         | 7,215,942                       | 5,324,872          |
| Net result from derivative transactions  | 1,125,186                        | (6,313,247)       | (50,434,804)                    | 16,635,489         |
| Earnings from investment in unconsolidated joint ventures                                | 326,465                          | 1,362,527         | 1,662,025                       | 2,351,878          |
| Unrealized gain (loss) on Agency interest-only securities                                | (1,282,308)                      | 3,188,919         | 465,597                         | (1,849,924)        |
| Gain on assignment of mortgage loan financing  | 431,465                          |                   | 431,465                         |                    |
| <b>Total other income</b>  | <b>61,337,408</b>                | <b>35,525,140</b> | <b>157,260,209</b>              | <b>205,477,846</b> |
| <b>Costs and expenses</b>  |                                  |                   |                                 |                    |
| Salaries and employee benefits   | 19,829,972                       | 14,343,883        | 66,316,170                      | 47,937,276         |
| Operating expenses   | 6,190,467                        | 5,870,491         | 12,895,587                      | 11,336,738         |
| Real estate operating expenses   | 7,149,488                        | 4,417,850         | 22,131,024                      | 11,309,438         |
| Fee expense  | 2,208,412                        | 561,420           | 3,423,498                       | 5,754,432          |
| Depreciation and amortization  | 6,829,090                        | 5,409,797         | 21,274,084                      | 11,608,986         |
| <b>Total costs and expenses</b>  | <b>42,207,429</b>                | <b>30,603,441</b> | <b>126,040,363</b>              | <b>87,946,870</b>  |
| <b>Income before taxes</b>   | <b>47,511,188</b>                | <b>21,850,400</b> | <b>109,642,544</b>              | <b>172,439,868</b> |
| Income tax expense   | 10,334,853                       | 663,868           | 23,822,694                      | 3,450,948          |
| <b>Net income</b>  | <b>37,176,335</b>                | <b>21,186,532</b> | <b>85,819,850</b>               | <b>168,988,920</b> |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures | 306,209                          | (1,024,751)       | 451,320                         | (697,721)          |
| Net (income) loss attributable to predecessor unitholders                                |                                  | \$ 20,161,781     | 12,628,031                      | \$ 168,291,199     |
| Net (income) loss attributable to noncontrolling interest in operating partnership       | (22,826,566)                     |                   | (59,086,094)                    |                    |
| <b>Net income attributable to Class A common shareholders</b>                            | <b>\$ 14,655,978</b>             |                   | <b>\$ 39,813,107</b>            |                    |

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

**Earnings per share:**

|         |    |      |    |      |
|---------|----|------|----|------|
| Basic   | \$ | 0.30 | \$ | 0.81 |
| Diluted | \$ | 0.28 | \$ | 0.74 |

**Weighted average shares outstanding:**

|         |            |            |
|---------|------------|------------|
| Basic   | 49,394,399 | 49,101,904 |
| Diluted | 97,918,235 | 97,750,385 |

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

Table of Contents**Ladder Capital Corp and Predecessor****Combined Consolidated Statements of Comprehensive Income**

(unaudited)

|  | <b>Three Months Ended September 30,</b> |                      | <b>Nine Months Ended September 30,</b> |                       |
|--|---|----------------------|--|-----------------------|
|  | <b>2014</b>                             | <b>2013</b>          | <b>2014</b>                            | <b>2013</b>           |
| <b>Net income</b>  | <b>\$ 37,176,335</b>                    | <b>\$ 21,186,532</b> | <b>\$ 85,819,850</b>                   | <b>\$ 168,988,920</b> |
| <b>Other comprehensive income (loss)</b>   |   |                      |  |                       |
| <b>Unrealized gains on securities, net of tax:</b>   |   |                      |  |                       |
| Unrealized gain (loss) on real estate securities, available for sale (1)                           | (7,211,604)                             | 4,395,335            | 30,510,716                             | (6,559,849)           |
| Reclassification adjustment for (gains) losses included in net income (2)                          | (11,351,542)                            | 1,394,468            | (18,860,093)                           | (4,481,847)           |
| <b>Total other comprehensive income (loss)</b>   | <b>(18,563,146)</b>                     | <b>5,789,803</b>     | <b>11,650,623</b>                      | <b>(11,041,696)</b>   |
| <b>Comprehensive income</b>  | <b>18,613,189</b>                       | <b>26,976,335</b>    | <b>97,470,473</b>                      | <b>157,947,224</b>    |
| Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures | 306,209                                 | (1,024,751)          | 451,320                                | (697,721)             |
| <b>Comprehensive income of combined Class A common shareholders and Predecessor unit holders</b>   | <b>\$ 18,919,398</b>                    | <b>\$ 25,951,584</b> | <b>\$ 97,921,793</b>                   | <b>\$ 157,249,503</b> |
| Comprehensive (income) loss attributable to predecessor unitholders                                |   |                      | (4,379,909)                            |                       |
| Comprehensive (income) loss attributable to noncontrolling interest in operating partnership       | (11,418,092)                            |                      | (55,859,150)                           |                       |
| <b>Comprehensive income attributable to Class A common shareholders</b>                            | <b>\$ 7,501,306</b>                     |                      | <b>\$ 37,682,734</b>                   |                       |

(1) Amounts are net of provision for (benefit from) income taxes of (\$2,049,031) and \$0 for the three months ended September 30, 2014 and 2013, respectively, and \$3,180,777 and \$0 for the nine months ended September 30, 2014 and 2013, respectively.

(2) Amounts are net of (provision for) benefit from income taxes of (\$3,225,310) and \$0 for the three months ended September 30, 2014 and 2013, respectively, and (\$4,473,917) and \$0 for the nine months ended September 30, 2014 and 2013, respectively.

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

[Table of Contents](#)
**Ladder Capital Corp and Predecessor**
**Combined Consolidated Statements of Changes in Equity/Capital**

(unaudited)

| Predecessor's Partners' Capital   |                          |                       |                         | Shareholders' Equity  |                       |                            |                   | Accumulated Other Comprehensive Income |              | Noncontrolling Interests | Consolidated            | Total Stockholders' Equity |
|---|--------------------------|-----------------------|-------------------------|-----------------------|-----------------------|----------------------------|-------------------|--|--------------|--------------------------|-------------------------|----------------------------|
| Series A Preferred Units  | Series B Preferred Units | Common Units          | Class A Common LP Units | Class B Common Shares | Class C Common Shares | Additional Paid-in Capital | Retained Earnings |  |              | Operating Partnership    | Joint Ventures          | Capital                    |
| <b>Balance, December 31, 2012</b>   | <b>\$ 781,100,600</b>    | <b>\$ 272,215,202</b> | <b>\$ 44,372,247</b>    | <b>\$</b>             | <b>\$</b>             | <b>\$</b>                  | <b>\$</b>         | <b>\$</b>                              | <b>\$</b>    | <b>\$ 582,166</b>        | <b>\$ 1,098,270,215</b> |                            |
| Contributions   |                          | 1,800,000             |                         |                       |                       |                            |                   |  |              | 9,845,654                | 11,645,654              |                            |
| Distributions   | (58,092,429)             | (18,333,605)          | (19,016,182)            |                       |                       |                            |                   |  |              | (493,136)                | (95,935,352)            |                            |
| Equity based compensation   |                          | 2,428,078             | 453,369                 |                       |                       |                            |                   |  |              |                          |                         | 2,881,447                  |
| Net income (loss)   | 115,349,646              | 36,670,087            | 37,811,503              |                       |                       |                            |                   |  |              | (1,098,150)              | 188,733,086             |                            |
| Other comprehensive income  | (12,372,395)             | (3,933,231)           | (4,055,659)             |                       |                       |                            |                   |  |              |                          | (20,361,285)            |                            |
| <b>Balance, December 31, 2013</b>   | <b>\$ 825,985,422</b>    | <b>\$ 290,846,531</b> | <b>\$ 59,565,278</b>    | <b>\$</b>             | <b>\$</b>             | <b>\$</b>                  | <b>\$</b>         | <b>\$</b>                              | <b>\$</b>    | <b>\$ 8,836,534</b>      | <b>\$ 1,185,233,765</b> |                            |
| Contributions   |                          |                       |                         |                       |                       |                            |                   |  |              | 1,277,929                | 1,277,929               |                            |
| Distributions   |                          | (368,983)             |                         |                       |                       |                            |                   |  | (44,828,810) | (2,045,566)              | (47,243,359)            |                            |
| Equity based compensation   |                          | 290,171               |                         |                       |                       |                            | 235,673           |  | 9,777,973    |                          | 10,303,817              |                            |
| Issuance of common stock (IPO)  |                          |                       |                         | 16,925,016            | 16,925                |                            | 259,020,575       |  |              |                          | 259,037,500             |                            |
| Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock |                          |                       |                         |                       |                       | (6,897)                    |                   |  | (124,723)    |                          | (124,723)               |                            |
| Offering costs  |                          |                       |                         |                       |                       | (20,523,458)               |                   |  |              |                          | (20,523,458)            |                            |
| Reorganization transactions   | (828,576,853)            | (291,680,215)         | (60,441,806)            | 18,698,328            |                       |                            |                   |  |              |                          |                         |                            |
| Exchange of capital for common stock  |                          |                       | (483,601,646)           | 33,672,193            | 193,672               |                            | 483,567,974       |  |              |                          |                         |                            |
| Exchange of predecessor LP Units for common stock   |                          |                       | (697,096,682)           |                       |                       | 48,537,414                 |                   |  | 697,096,682  |                          |                         |                            |
| Exchange of noncontrolling interest for common stock  |                          |                       |                         |                       | 874,374               | 874                        | (874,374)         | 42,826,991                             | (12,827,865) |                          |                         |                            |
| Adjustment to tax receivable agreement as a result of the   |                          |                       |                         |                       |                       |                            | 137,777           |  |              |                          | 137,777                 |                            |

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

|                               |                   |               |                   |                   |                   |               |                  |                      |
|-------------------------------|-------------------|---------------|-------------------|-------------------|-------------------|---------------|------------------|----------------------|
| exchange of<br>Class B shares |                   |               |                   |                   |                   |               |                  |                      |
| Net income                    |                   |               |                   |                   |                   |               |                  |                      |
| (loss)                        | (7,471,541)       | (2,630,884)   | (2,525,606)       |                   | 39,813,107        | 59,086,094    | (451,320)        | 85,819,850           |
| Other                         |                   |               |                   |                   |                   |               |                  |                      |
| comprehensive                 |                   |               |                   |                   |                   |               |                  |                      |
| income                        | 10,062,972        | 3,543,380     | 3,401,588         |                   | (2,130,372)       | (26,944)      |                  | 11,650,623           |
| Rebalancing of                |                   |               |                   |                   |                   |               |                  |                      |
| ownership                     |                   |               |                   |                   |                   |               |                  |                      |
| percentage                    |                   |               |                   |                   |                   |               |                  |                      |
| between                       |                   |               |                   |                   |                   |               |                  |                      |
| Company and                   |                   |               |                   |                   |                   |               |                  |                      |
| Operating                     |                   |               |                   |                   |                   |               |                  |                      |
| Partnership                   |                   |               |                   |                   | 144,844           | 86,908        | (1,772)          |                      |
| <b>Balance,</b>               |                   |               |                   |                   |                   |               |                  |                      |
| <b>September 30,</b>          |                   |               |                   |                   |                   |               |                  |                      |
| <b>2014</b>                   | <b>51,471,539</b> | <b>51,471</b> | <b>47,656,143</b> | <b>55,410,861</b> | <b>32,074,450</b> | <b>50,635</b> | <b>7,617,577</b> | <b>1,485,569,721</b> |

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

Table of Contents**Ladder Capital Corp and Predecessor****Combined Consolidated Statements of Cash Flows**

(unaudited)

|   | <b>Nine Months Ended September 30,</b> |                    |
|---|--|--------------------|
|   | <b>2014</b>                            | <b>2013</b>        |
| <b>Cash flows from operating activities:</b>  |  |                    |
| Net income  | \$ 85,819,850                          | \$ 168,988,920     |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |  |                    |
| Depreciation and amortization   | 21,274,084                             | 11,608,986         |
| Unrealized (gain) loss on derivative instruments  | 2,752,740                              | 5,030,545          |
| Unrealized (gain) loss on Agency interest-only securities                                   | (465,597)                              | 1,849,924          |
| Provision for loan losses   | 450,000                                | 450,000            |
| Amortization of equity based compensation   | 10,303,817                             | 2,194,673          |
| Amortization of deferred financing costs included in interest expense                       | 4,080,794                              | 3,293,359          |
| Amortization of premium on mortgage loan financing  | (471,162)                              | (403,203)          |
| Amortization of above- and below-market lease intangibles                                   | 533,080                                |                    |
| Accretion/amortization of discount, premium and other fees on loans and securities          | 63,752,742                             | 40,487,633         |
| Realized gain on sale of mortgage loan receivables held for sale                            | (107,135,195)                          | (141,046,263)      |
| Realized gain on real estate securities   | (21,259,266)                           | (4,481,847)        |
| Realized gain on sale of real estate  | (24,224,538)                           | (10,887,448)       |
| Realized gain on assignment of mortgage loan financing                                      | (431,465)                              |                    |
| Origination of mortgage loan receivables held for sale                                      | (2,027,845,247)                        | (1,572,035,040)    |
| Repayment of mortgage loan receivables held for sale  | 950,955                                | 5,603,753          |
| Proceeds from sales of mortgage loan receivables held for sale                              | 2,379,817,907                          | 2,246,099,121      |
| Accrued interest receivable   | (6,102,869)                            | 649,333            |
| Earnings on investment in unconsolidated joint ventures                                     | (1,662,025)                            | (2,351,878)        |
| Distributions of return on capital from investment in unconsolidated joint ventures         | 1,731,695                              | 2,804,880          |
| Deferred tax asset  | (5,543,859)                            |                    |
| Changes in operating assets and liabilities:  |  |                    |
| Due to brokers  |  | 18,153,020         |
| Due from brokers  | (2,773)                                | (21,502,918)       |
| Other assets  | (26,291,641)                           | (25,373,397)       |
| Amount payable pursuant to tax receivable agreement   | 672,235                                |                    |
| Accrued expenses and other liabilities  | 16,004,505                             | 36,223,768         |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>366,708,767</b>                     | <b>765,355,921</b> |
| <b>Cash flows used in investing activities:</b>   |  |                    |
| Reduction (addition) of cash collateral held by broker for derivatives                      | (790,594)                              | (1,075,479)        |
| Purchase of derivative instruments  | (7,125)                                | (20,000)           |
| Purchases of real estate securities   | (1,286,236,301)                        | (707,021,887)      |
| Repayment of real estate securities   | 165,755,531                            | 330,611,532        |
| Proceeds from sales of real estate securities   | 565,099,884                            | 133,874,777        |
| Purchase of FHLB stock  | (10,290,000)                           | (23,300,000)       |
| Origination and purchases of mortgage loan receivables held for investment                  | (951,438,160)                          | (233,727,109)      |
| Repayment of mortgage loan receivables held for investment                                  | 159,328,718                            | 184,292,674        |
| Reduction (addition) of cash collateral held by broker                                      | (25,213,608)                           | 28,877,353         |
| Addition of deposits received for loan originations   | 6,461,002                              | 11,357,534         |
| Security deposits included in other assets  | (5,288,660)                            |                    |
| Capital contributions to investment in unconsolidated joint ventures                        |  | (4,676,914)        |
| Distributions of return of capital from investment in unconsolidated joint ventures         | 3,254,851                              | 4,824,245          |



Edgar Filing: Ladder Capital Corp - Form 10-Q

|  |                        |                      |
|--|------------------------|----------------------|
| Purchases of real estate and capital improvements  | (128,968,131)          | (158,102,978)        |
| Proceeds from sale of real estate  | 103,461,515            | 27,666,715           |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(1,404,871,078)</b> | <b>(406,419,537)</b> |
| <b>Cash flows from financing activities:</b>   |                        |                      |
| Deferred financing costs   | (7,215,212)            | (3,696,880)          |
| Proceeds from repurchase agreements  | 7,141,261,983          | 3,374,644,489        |
| Repayment of repurchase agreements   | (6,989,469,558)        | (4,162,410,192)      |
| Proceeds from borrowings under credit agreements   | 15,000,000             | 30,000,000           |
| Repayment of borrowings under credit agreements  | (15,000,000)           | (30,000,000)         |
| Proceeds from revolving credit facility  | 25,000,000             |                      |
| Repayment of revolving credit facility   | (25,000,000)           |                      |
| Proceeds from mortgage loan financing  | 138,552,904            | 185,037,630          |
| Repayment of mortgage loan financing   | (30,438,399)           | (71,478)             |
| Proceeds from FHLB borrowings  | 4,165,000,000          | 3,729,500,000        |
| Repayments of FHLB borrowings  | (3,863,000,000)        | (3,383,500,000)      |
| Proceeds from Notes issued   | 300,000,000            |                      |
| Partners' capital contributions  |                        | 1,800,000            |
| Partners' capital distributions  | (368,983)              | (90,975,313)         |
| Capital contributed by a noncontrolling interest   | 1,277,929              | 8,437,262            |
| Capital distributed by a noncontrolling interest   | (46,874,376)           | (353,136)            |
| Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock                | (124,723)              |                      |
| Issuance of common stock   | 259,037,500            |                      |
| Common stock offering costs  | (20,523,458)           |                      |
| Adjustment to tax receivable agreement as a result of the exchange of Class B shares                                     | 137,777                |                      |
| <b>Net cash provided by (used in) financing activities</b>   | <b>1,047,253,384</b>   | <b>(341,587,618)</b> |
| <b>Net increase (decrease) in cash</b>   | <b>9,091,073</b>       | <b>17,348,766</b>    |
| Cash and cash equivalents at beginning of period   | 78,742,257             | 45,178,565           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 87,833,330</b>   | <b>\$ 62,527,331</b> |
| <b>Supplemental information:</b>   |                        |                      |
| <b>Cash paid for interest</b>  | <b>\$ 50,508,752</b>   | <b>\$ 33,670,316</b> |
| <b>Cash paid for income taxes</b>  | <b>\$ 9,539,391</b>    | <b>\$ 3,274,256</b>  |
| <b>Supplemental disclosure of non-cash operating activities:</b>   |                        |                      |
| Establishment of deferred tax asset  | \$ 5,543,859           | \$                   |
| <b>Supplemental disclosure of non-cash investing activities:</b>   |                        |                      |
| Transfer from mortgage loan receivables held for investment, at amortized cost to mortgage loan receivable held for sale | \$ 11,800,000          | \$ 8,460,174         |
| Transfer from real estate, net to real estate held for sale  | \$ 19,321,600          | \$                   |
| <b>Supplemental disclosure of non-cash financing activities:</b>   |                        |                      |
| Exchange of capital for common stock   | \$ 483,567,974         | \$                   |
| Exchange of noncontrolling interest for common stock   | \$ 697,096,682         | \$                   |
| Change in other comprehensive income related to change in current and deferred tax asset                                 | \$ 1,293,140           | \$                   |
| Rebalancing of ownership percentage between Company and Operating Partnership  | \$ 231,772             | \$                   |

The accompanying notes are an integral part of these 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 was formed as a Delaware corporation on May 21, 2013. The Company conducted an initial public offering of common stock (the "IPO") which closed on February 11, 2014. The Company used the net proceeds from the IPO to purchase newly issued 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 newly issued LP Units have 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 own LP Units and an equivalent number of shares of Ladder Capital Corp Class B common stock as of the completion of the offering (the "Continuing LCFH Limited Partners") are 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 the capital structure of LCFH (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 a single new class of units in LCFH ("LP Units") 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 approximately \$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.

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

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) have 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 the Internal Revenue 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:

- 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, and Ladder Capital Corp has a majority voting interest and controls the management of LCFH. 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 to the extent the book value of their interest in LCFH is greater than zero;

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

### Table of Contents

- 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. With respect to LCFH, 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 are 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 are required to be cancelled. LCFH LP units and Ladder Capital Corp Class B common stock cannot be legally separated. However, the exchange of LP Units for shares of Ladder Capital Corp Class A common stock will not affect the exchanging owners' voting power since the votes represented by the cancelled shares of Ladder Capital Corp Class B common stock will be replaced with the votes represented by the shares of Class A common stock for which such LP Units are exchanged. As a result of the Company's acquisition of LP Units of LCFH and LCFH's election under Section 754 of the Internal Revenue 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.

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

## **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 audited consolidated financial statements for the year ended December 31, 2013 of our Predecessor, LCFH, which are included in the Company's annual report on Form 10-K, as certain disclosures which would substantially duplicate those contained in the audited 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.

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

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 September 30, 2014, the Company does not have investments in VIEs.

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

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.

Pursuant to ASC 810, Consolidation, on the accounting and reporting for noncontrolling interests and changes in ownership interests of a subsidiary, changes in a parent's ownership interest (and transactions with noncontrolling interest unitholders in the subsidiary) while the parent retains its controlling interest in its subsidiary should be accounted for as equity transactions. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the parent. Accordingly, as a result of reorganization transactions which caused changes in ownership percentages between the Company's Class A shareholders and the noncontrolling interests in the Operating Partnership that occurred during the nine months ended September 30, 2014, the Company has decreased noncontrolling interests in the Operating Partnership and increased additional paid-in capital and accumulated other comprehensive income in the Company's shareholders' equity by \$231,772 as of September 30, 2014.

*Use of Estimates*

The preparation of the 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;
- determination of effective yield for recognition of interest income;
- determination of other than temporary impairment of real estate securities;
- useful lives of intangible assets;
- impairment, and estimated useful life, of intangible assets;
- amounts payable pursuant to the tax receivable agreement;
- determination of the effective tax rate for income tax provision;
- loan loss provision;
- certain estimates and assumptions used in the allocation of revenue and expenses for our segment reporting; and

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

- certain estimates and assumptions used in the accrual of incentive compensation and calculation of the fair value of equity compensation issued to employees.

### ***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.

### ***Mortgage Loans Receivable Held for Investment***

Loans that the Company has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balances net of any unearned income, unamortized deferred fees or costs, premiums or discounts and an allowance for loan losses. Loan origination fees and direct loan origination costs are deferred and recognized in interest income over the estimated life of the loans using the interest method, adjusted for actual prepayments. The Company may sell mortgage loans receivable held for investment to an unaffiliated third party or LCRIP I, as described in Note 7. Upon the decision to sell such loans, the Company will transfer the loan from mortgage loan receivables held for investment to mortgage loan receivables held for sale at the lower of carrying value or fair value less cost to sell on the combined consolidated balance sheets.

Table of Contents

The Company evaluates each loan classified as a mortgage loan receivable held for investment for impairment at least quarterly. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If the loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan to the present value of the expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if recovery of the Company's investment is expected solely from the collateral. The Company estimates its loan loss provision based on its historical loss experience and expectation of losses inherent in the investment portfolio but not yet realized. Since inception, the Company has had no events of impairment on any of the loans it has originated, however, to ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets are aged and approach maturity and ultimate refinancing where applicable.

The Company's loans are typically collateralized by real estate. 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/sponsor on a loan by loan basis. 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 borrower operates. 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 borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and other market data.

Upon the completion of the process above, the Company concluded that no loans originated by the Company were impaired as of September 30, 2014 and December 31, 2013. Significant judgment is required when evaluating loans for impairment, therefore actual results over time could be materially different.

***Real Estate***

The Company records acquired real estate at cost and makes assessments as to the useful lives of depreciable assets. The Company considers the period of future benefit of the asset to determine its appropriate useful lives. Depreciation is computed using a straight-line method over the estimated useful life of 20 to 47 years for buildings, four to 15 years for building fixtures and improvements and the remaining lease term for acquired intangible lease assets.

The Company classifies investments in real estate as held and used. The Company measures and records a property that is classified as held and used at its carrying amount, adjusted for any depreciation expense and impairments, as applicable.

Certain of the Company's real estate investments are condominium units that the Company intends to sell over time. As of January 1, 2014, the date the Company adopted the accounting guidance in 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* (ASU 2014-08), the results of operations and the related gain or loss on sale of properties that have been sold are reflected in other income and not reflected as real estate held for sale or presented in discontinued operations in the consolidated statements of income due to fact that the disposal does not represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results and full disposal is not expected to be completed within one year. Prior to January 1, 2014, the results of operations and the related gain or loss on sale of condominium units that have been sold are not reflected as held for sale or presented in discontinued operations in the consolidated statements of income due to the significant continuing involvement in the real estate held through the consolidated homeowner's association.



Certain of the Company's real estate is leased to others on a net lease basis where the tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance. These leases are for fixed terms of varying length and provide for annual rentals. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in unbilled rent receivable within other assets in the consolidated balance sheets.

Table of Contents

*Allocation of Purchase Price for Acquired Real Estate*

In accordance with the guidance for business combinations, the Company determines whether a transaction or other event is a business combination. If the transaction is determined to be a business combination, the Company determines if the transaction is considered to be between entities under common control. The acquisition of an entity under common control is accounted for on the carryover basis of accounting whereby the assets and liabilities of the companies are recorded upon the merger on the same basis as they were carried by the companies on the merger date. All other business combinations are accounted for by applying the acquisition method of accounting. Under the acquisition method, the Company recognizes the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity. In addition, the Company evaluates the existence of goodwill or a gain from a bargain purchase. The Company will immediately expense acquisition-related costs and fees associated with business combinations.

The Company allocates the purchase price of acquired properties and businesses accounted for under the acquisition method of accounting to tangible and identifiable intangible assets generally related to above/below market leases, in-place lease values and tenant relationship values acquired based on an estimate of carrying costs during the expected lease-up period for each property, taking into account current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, and insurance and other operating expenses. The Company also estimates costs to execute similar leases including leasing commissions, legal and other related expenses.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be paid pursuant to the in-place leases and management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease intangibles are amortized as a decrease to rental income over the remaining term of the lease plus any assumed renewals of below market lease terms. The capitalized below-market lease values will be amortized as an increase to rental income over the remaining term of the lease and any below market fixed rate renewal periods provided within the respective leases. If a tenant with a below market rent renewal does not renew, any remaining unamortized amount will be taken into income at that time.

The fair value of investments and debt are valued using techniques consistent with those disclosed in Note 9, depending on the nature of the investment or debt. The fair value of all other assumed assets and liabilities are based on the best information available.

The aggregate value of intangible assets related to customer relationships is measured based on the Company's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the tenant. Characteristics considered by the Company in determining these values include the nature and extent of the Company's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors.

The value of in-place leases is amortized to expense over the initial terms of the respective leases, including any probable renewal periods, which range primarily from four to 25 years. The value of customer relationship intangibles is amortized to expense over the initial terms and any presumed renewal periods to be exercised in the respective leases, but in no event do the amortization periods for intangible assets exceed the remaining depreciable lives of the buildings. If a tenant terminates its lease, the unamortized portion of the in-place lease value and customer relationship intangibles is charged to expense.

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

In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, as well as subsequent marketing and leasing activities, in estimating the fair value of the tangible and intangible assets acquired and intangible liabilities assumed.

### *Impairment of Held for Use Property*

On a periodic basis, management assesses whether there are any indicators that the value of the Company's properties classified as held for use may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near-term lease expirations, recently acquired properties, current and historical operating and/or cash flow losses, near-term mortgage debt maturities or other factors that might impact the Company's intent and ability to hold the property. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Company's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions. These assumptions are generally based on management's experience in its local real estate markets and the effects of current market

Table of Contents

conditions. The assumptions are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved, and actual losses or impairments may be realized in the future.

***Real Estate Held for Sale***

In accordance with accounting guidance found in *ASC Topic 360 - Property, Plant, and Equipment* (ASC 360), when assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the estimated net sales price of the assets which have been identified as held for sale is less than the net book value of the assets, an impairment charge will be recorded in the combined consolidated statements of income.

If circumstances arise that previously were considered unlikely and, as a result, the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell.

***Sales of Real Estate***

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20, *Real Estate Sales* (ASC 360-20). The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, depending on the circumstances, the Company may not record a sale. Instead it may record a sale but may defer some or all of the gain recognition or it may account for the transaction by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

***Valuation Hierarchy***

In accordance with the authoritative guidance on fair value measurements and disclosures under ASC 820, *Fair Value Measurement*, the methodologies used for valuing such instruments have been categorized into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical instruments.

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

Level 2 - Valuations based principally on other observable market parameters, including:

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs.

- Valuations based on third party indications (broker quotes, counterparty quotes or pricing services) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Valuations based on internal models with significant unobservable inputs.

Pursuant to the authoritative guidance, these levels form a hierarchy. The Company follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

It is the Company's policy to determine when transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Table of Contents

***Deferred Tax Asset and Amount Due Pursuant to Tax Receivable Agreement***

In conjunction with the IPO, the Company is treated for U.S. federal income tax purposes as having directly purchased LP Units in LCFH from the existing unitholders. In the future, additional LCFH LP Units may be exchanged for shares of Class A common stock in the Company. The initial purchase and these future exchanges are expected to result in an increase in the tax basis of LCFH's assets attributable to the Company's interest in LCFH. These increases in the tax basis of LCFH's assets attributable to the Company's interest in LCFH would not have been available but for this initial purchase and future exchanges. Such increases in tax basis are likely to increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax the Company would otherwise be required to pay in the future. The Company has entered into a tax receivable agreement (TRA) with its Continuing LCFH Limited Partners that will provide for the payment by the Company to its Continuing LCFH Limited Partners of 85% of the amount of cash savings in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of (a) the increase in tax basis attributable to exchanges by its Continuing LCFH Limited Partners and (b) tax benefits related to imputed interest deemed to be paid by the Company as a result of this TRA. The Company expects to benefit from the remaining 15% of cash savings, if any, in income tax that it realizes and record any such estimated tax benefits as an increase to additional paid-in-capital. For purposes of the TRA, cash savings in income tax will be computed by comparing the Company's actual income tax liability to the amount of such taxes that it would have been required to pay had there been no increase to the tax basis of the assets of LCFH as a result of the exchanges and had it not entered into the TRA. The term of the TRA commenced upon consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless the Company exercises its right to terminate the TRA for an amount based on an agreed value of payments remaining to be made under the agreement. The Company has recorded the estimated tax benefits related to the increase in tax basis and imputed interest as a result of the initial purchase described above as a deferred tax asset in the condensed consolidated and combined statements of financial condition. The amount due to its Continuing LCFH Limited Partners related to the TRA as a result of the initial purchase described above is recorded as amount due pursuant to TRA in the condensed consolidated and combined statements of financial condition.

***Income Taxes***

The Company accounts for income taxes in accordance with ASC *Topic 740 - Income Taxes* (ASC 740), which requires the recognition of tax benefits or expenses on the temporary differences between financial reporting and tax bases of assets and liabilities. The Company's operations were historically organized as a limited liability limited partnership which elected to be treated as a partnership for income tax purposes. Accordingly, the Company's income was not subject to U.S. federal income taxes. Taxes related to income earned by this entity represented obligations of the individual partners and were not reflected in the combined consolidated financial statements. Instead, income taxes shown on the Company's historical consolidated financial statements were attributable to the New York City Unincorporated Business Tax. After the Company's IPO, the income from operations attributable to the Company is taxed at the prevailing federal, state and local and foreign income tax rates. Income from operations of LCFH remains taxable to its limited partners.

The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement which could result in the Company recording a tax liability that would reduce shareholders' equity.

The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as a component of general and administrative expense on its combined consolidated statements of income. For the three and nine months ended September 30, 2014 and 2013, the Company did not have any interest or penalties associated with the underpayment of any income taxes. The last three tax years remain open and subject to examination by tax jurisdictions.

**Prior Period Reclassification**

In connection with the filing of the Company's Form 10-Q for the 3 and 9-months ended September 30, 2013, the Company determined that it had incorrectly classified certain amounts as income tax expense rather than real estate operating and operating expenses in the 3 and 6-months ended June 30, 2013. The Company correctly reflected such amounts in the 9-months ended September 30, 2013 and correctly reflected such amounts in Note 15 in the Form 10-K for the year ended December 31, 2013. However, the Company did not appropriately reflect these amounts when it reported the 3 and 6-months ended June 30, 2013 again for comparative purposes in its quarterly filing on Form 10-Q for June 30, 2014. The Company does not believe the correction of these amounts is material to the financial statements as filed; however, to correctly reflect these amounts in the quarterly footnote in the Form 10-K for the year ended December 31, 2014, the following adjustments will be reflected:

|                               | Three Months Ended June 30, 2013 |                  |               | Six Months Ended June 30, 2013 |                  |                |
|-------------------------------|----------------------------------|------------------|---------------|--------------------------------|------------------|----------------|
|                               | As Reported                      | Reclassification | As revised    | As Reported                    | Reclassification | As revised     |
| Operating Expense             | \$ 2,736,255                     | \$ 449,925       | \$ 3,186,180  | \$ 5,009,124                   | \$ 449,925       | \$ 5,459,049   |
| Real estate operating expense | 3,544,717                        | 473,645          | 4,018,362     | 6,425,142                      | 473,645          | 6,898,787      |
| Income before tax             | \$ 61,395,302                    | \$ (923,570)     | \$ 60,471,732 | \$ 151,513,037                 | \$ (923,570)     | \$ 150,589,467 |
| Income tax expense            | 1,615,757                        | (896,440)        | 719,317       | 3,683,520                      | (896,440)        | 2,787,080      |
| Net income                    | \$ 59,779,545                    | \$ (27,130)      | \$ 59,752,415 | \$ 147,829,517                 | \$ (27,130)      | \$ 147,802,387 |

The Company has correctly reflected these items in this filing for the nine-month period ended September 30, 2013.

**Recently Issued and Adopted Accounting Pronouncements**

In August 2014, the Federal Accounting Standards Board ( FASB ) issued Accounting Standards Update ( 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

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

### Table of Contents

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 ended March 31, 2017 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 2014-14, *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 2014-04. The Company anticipates adopting this update in the quarter ended March 31, 2015 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 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 probable of being 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 ended March 31, 2016 and does not expect the adoption to have a material impact on the Company's 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



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

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 adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

Table of Contents

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ( ASU 2014-09 ). ASU 2014-09 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 2014-09, 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 2014-09 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 ended March 31, 2017 and is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company's consolidated financial condition or results of operations.

In April 2014, FASB issued 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* ( ASU 2014-08 ). The objective of this update is to change the criteria for determining which disposals can be presented as discontinued operations and to modify related disclosure requirements. Under this guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update requires expanded disclosures for discontinued operations reporting and is effective for annual and interim periods beginning after December 15, 2014 with early adoption permitted for disposals that have not been reported in financial statements previously issued or available for issuance. The Company adopted this guidance during the quarter ended March 31, 2014.

In July 2013, FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ( ASU 2013-11 ). The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013. This guidance became effective for the Company beginning January 1, 2014. The adoption of this standard did not have a material impact on its combined consolidated financial statements or footnote disclosures.

In February 2013, FASB issued Accounting Standards Update ( ASU ) 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date* (ASU 2013-04 ). ASU 2013-04 addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not currently include specific guidance on accounting for such obligations with joint and several liability which has resulted in diversity in practice. The ASU requires an entity to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The ASU is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the updates scope that exist within the Company's statement of financial position at the beginning of the year of adoption. This guidance became effective for the Company beginning January 1, 2014. The adoption of this standard did not have a material impact on its combined consolidated financial statements or footnote disclosures.

### 3. CAPITALIZED OFFERING COSTS

As described in Note 1, the Company completed an IPO of its Class A Common Stock on February 11, 2014. Costs directly attributable to the Company's IPO of \$20,523,458 were capitalized and charged against the proceeds of the IPO once completed.



Table of Contents**4. MORTGAGE LOAN RECEIVABLES***September 30, 2014*

|  | <b>Outstanding<br/>Face Amount</b> | <b>Carrying<br/>Value</b> | <b>Weighted<br/>Average<br/>Yield (2)</b> | <b>Remaining<br/>Maturity<br/>(years)</b> |
|--|------------------------------------|---------------------------|---|---|
| Mortgage loan receivables held for investment, at amortized cost | \$ 1,339,079,117                   | \$ 1,323,279,126(1)       | 7.70%                                     | 2.00                                      |
| Mortgage loan receivables held for sale                          | 206,415,369                        | 206,501,369               | 4.80%                                     | 9.51                                      |
| <b>Total</b>   | <b>\$ 1,545,494,486</b>            | <b>\$ 1,529,780,495</b>   |   |   |

*December 31, 2013*

|  | <b>Outstanding<br/>Face Amount</b> | <b>Carrying<br/>Value</b> | <b>Weighted<br/>Average<br/>Yield (2)</b> | <b>Remaining<br/>Maturity<br/>(years)</b> |
|--|------------------------------------|---------------------------|---|---|
| Mortgage loan receivables held for investment, at amortized cost | \$ 549,573,788                     | \$ 539,078,182(1)         | 9.76%                                     | 2.14                                      |
| Mortgage loan receivables held for sale                          | 440,774,789                        | 440,489,789               | 5.47%                                     | 9.62                                      |
| <b>Total</b>   | <b>\$ 990,348,577</b>              | <b>\$ 979,567,971</b>     |   |   |

(1) The carrying amount of loan receivables held for investment are presented net of provision for loan losses of \$2,950,000 and \$2,500,000 at September 30, 2014 and December 31, 2013, respectively.

(2) September 30, 2014 yields are used to calculate weighted average yield for floating rate loans.

The following table summarizes mortgage loan receivables by loan type:

|   | <b>September 30, 2014</b>          |                           | <b>December 31, 2013</b>           |                           |
|---|------------------------------------|---------------------------|------------------------------------|---------------------------|
|   | <b>Outstanding<br/>Face Amount</b> | <b>Carrying<br/>Value</b> | <b>Outstanding<br/>Face Amount</b> | <b>Carrying<br/>Value</b> |
| <b>Mortgage loan receivables held for sale</b>                          |                                    |                           |                                    |                           |
| First mortgage loan   | \$ 206,415,369                     | \$ 206,501,369            | \$ 440,774,789                     | \$ 440,489,789            |
| <b>Total mortgage loan receivables held for sale</b>                    | <b>206,415,369</b>                 | <b>206,501,369</b>        | <b>440,774,789</b>                 | <b>440,489,789</b>        |
| <b>Mortgage loan receivables held for investment, at amortized cost</b> |                                    |                           |                                    |                           |
| First mortgage loan   | 1,194,465,584                      | 1,182,571,784             | 420,672,555                        | 413,564,066               |

Edgar Filing: Ladder Capital Corp - Form 10-Q

|   |                         |                         |                       |                       |
|---|-------------------------|-------------------------|-----------------------|-----------------------|
| Mezzanine loan  | 144,613,533             | 143,657,342             | 128,901,233           | 128,014,116           |
| <b>Total mortgage loan receivables held for investment, at amortized cost</b> | <b>1,339,079,117</b>    | <b>1,326,229,126</b>    | <b>549,573,788</b>    | <b>541,578,182</b>    |
| Provision for loan losses   | N/A                     | 2,950,000               | N/A                   | 2,500,000             |
| <b>Total</b>  | <b>\$ 1,545,494,486</b> | <b>\$ 1,529,780,495</b> | <b>\$ 990,348,577</b> | <b>\$ 979,567,971</b> |

For the nine months ended September 30, 2014 and 2013, the activity in our loan portfolio was as follows:

|  | <b>Mortgage loan<br/>receivables held<br/>for investment, at<br/>amortized cost</b> | <b>Mortgage loan<br/>receivables held<br/>for sale</b> |
|--|---|--|
| <b>Balance December 31, 2012</b>                           | <b>\$ 326,318,550</b>   | <b>\$ 623,332,620</b>                                  |
| Origination of mortgage loan receivables                   | 233,727,109   | 1,572,035,040  |
| Repayment of mortgage loan receivables                     | (184,292,674)   | (5,603,753)  |
| Proceeds from sales of mortgage loan receivables           |   | (2,246,099,121)  |
| Realized gain on sale of mortgage loan receivables         |   | 141,046,263  |
| Transfer between held for investment and held for sale     | (8,320,273)   | 8,320,273  |
| Accretion/amortization of discount, premium and other fees | 2,626,454   |  |
| Loan loss provision  | (450,000)   |  |
| <b>Balance September 30, 2013</b>                          | <b>\$ 369,609,166</b>   | <b>\$ 93,031,322</b>                                   |

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

## Table of Contents

|  | Mortgage loan<br>receivables held<br>for investment, at<br>amortized cost | Mortgage loan<br>receivables held<br>for sale |
|--|---|---|
| <b>Balance December 31, 2013</b>                           | <b>\$ 539,078,182</b>   | <b>\$ 440,489,789</b>                         |
| Origination of mortgage loan receivables                   | 951,438,160   | 2,027,845,247                                 |
| Repayment of mortgage loan receivables                     | (159,328,718)   | (950,955)                                     |
| Proceeds from sales of mortgage loan receivables           |   | (2,379,817,907)                               |
| Realized gain on sale of mortgage loan receivables         |   | 107,135,195                                   |
| Transfer between held for investment and held for sale     | (11,800,000)  | 11,800,000                                    |
| Accretion/amortization of discount, premium and other fees | 4,341,502   |   |
| Loan loss provision  | (450,000)   |   |
| <b>Balance September 30, 2014</b>                          | <b>\$ 1,323,279,126</b>   | <b>\$ 206,501,369</b>                         |

During the three and nine months ended September 30, 2014 and 2013, the transfers of financial assets via sales of loans have been treated as sales by us under ASC 860.

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 borrower's 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. 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 September 30, 2014 and December 31, 2013, there was \$4,080,833 and \$4,273,890, respectively, of unamortized discounts included in our mortgage loan receivables held for investment, at amortized cost on our combined consolidated balance sheets. At September 30, 2014 and December 31, 2013, there was one loan on non-accrual status with an amortized cost of \$4,620,000 and an unamortized discount of \$3,452,500 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

|   | Three Months Ended September 30, |                     | Nine Months Ended September 30, |                     |
|---|----------------------------------|---------------------|---------------------------------|---------------------|
|   | 2014                             | 2013                | 2014                            | 2013                |
| <b>Provision for loan losses at beginning of period</b> | <b>\$ 2,800,000</b>              | <b>\$ 2,200,000</b> | <b>\$ 2,500,000</b>             | <b>\$ 1,900,000</b> |
| Provision for loan losses                               | 150,000                          | 150,000             | 450,000                         | 450,000             |
| Charge-offs   |                                  |                     |                                 |                     |
|   | \$ 2,950,000                     | \$ 2,350,000        | \$ 2,950,000                    | \$ 2,350,000        |

**Provision for loan losses at end of  
period**

**5. REAL ESTATE SECURITIES**

CMBS, CMBS interest-only, 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 September 30, 2014 and December 31, 2013 (\$ in thousands):

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

## Table of Contents

### September 30, 2014

| Asset Type                       | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Gross Unrealized |                   | Carrying<br>Value   | # of<br>Securities | Rating (2) | Weighted Average |         | Remaining<br>Duration<br>(years) |
|----------------------------------|----------------------------|-------------------------|------------------|-------------------|---------------------|--------------------|------------|------------------|---------|----------------------------------|
|                                  |                            |                         | Gains            | Losses            |                     |                    |            | Coupon %         | Yield % |                                  |
| CMBS                             | \$ 1,617,189               | \$ 1,635,179            | \$ 19,692        | \$ (2,819)        | \$ 1,652,052        | 121                | AAA        | 3.62%            | 3.04%   | 3.83                             |
| CMBS<br>interest-only            | 7,393,639(1)               | 378,500                 | 4,945            | (419)             | 383,026             | 38                 | AAA        | 1.10%            | 3.98%   | 3.38                             |
| GNMA<br>interest-only            | 1,613,053(1)               | 81,808                  | 2,038            | (4,625)           | 79,221              | 37                 | AA+        | 0.93%            | 6.89%   | 4.56                             |
| GN<br>construction<br>securities | 23,083                     | 23,630                  | 28               | (654)             | 23,004              | 4                  | AA+        | 3.90%            | 3.52%   | 6.88                             |
| GN permanent<br>securities       | 36,524                     | 37,594                  | 1,718            |                   | 39,312              | 11                 | AA+        | 5.50%            | 4.95%   | 6.12                             |
| <b>Total</b>                     | <b>\$ 10,683,488</b>       | <b>\$ 2,156,711</b>     | <b>\$ 28,421</b> | <b>\$ (8,517)</b> | <b>\$ 2,176,615</b> |                    |            |                  |         |                                  |

### December 31, 2013

| Asset Type                       | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Gross Unrealized |                    | Carrying<br>Value   | # of<br>Securities | Rating (2) | Weighted Average |         | Remaining<br>Duration<br>(years) |
|----------------------------------|----------------------------|-------------------------|------------------|--------------------|---------------------|--------------------|------------|------------------|---------|----------------------------------|
|                                  |                            |                         | Gains            | Losses             |                     |                    |            | Coupon %         | Yield % |                                  |
| CMBS                             | \$ 1,160,741               | \$ 1,156,230            | \$ 13,853        | \$ (5,147)         | \$ 1,164,936        | 101                | AAA        | 4.24%            | 4.08%   | 4.88                             |
| CMBS<br>interest-only            | 5,702,862(1)               | 256,869                 | 2,204            | (1,015)            | 258,058             | 21                 | AAA        | 1.00%            | 4.19%   | 3.38                             |
| GNMA<br>interest-only            | 1,848,270(1)               | 103,136                 | 1,630            | (4,889)            | 99,877              | 36                 | AA+        | 1.12%            | 5.32%   | 2.12                             |
| FHLMC<br>interest-only           | 219,677(1)                 | 7,904                   | 248              |                    | 8,152               | 2                  | AA+        | 0.95%            | 5.21%   | 3.04                             |
| GN<br>construction<br>securities | 12,858                     | 13,261                  | 36               | (290)              | 13,007              | 8                  | AA+        | 4.11%            | 3.49%   | 6.57                             |
| GN permanent<br>securities       | 108,310                    | 110,724                 | 2,492            |                    | 113,216             | 14                 | AAA        | 5.53%            | 4.64%   | 3.27                             |
| <b>Total</b>                     | <b>\$ 9,052,718</b>        | <b>\$ 1,648,124</b>     | <b>\$ 20,463</b> | <b>\$ (11,341)</b> | <b>\$ 1,657,246</b> |                    |            |                  |         |                                  |

(1) 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.

The following is a breakdown of the fair value of the Company's securities by remaining maturity based upon expected cash flows at September 30, 2014 and December 31, 2013 (\$ in thousands):



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

*September 30, 2014*

| Asset Type                 | Within 1 year |                | 1-5 years |                  | 5-10 years |                | After 10 years |              | Total               |
|----------------------------|---------------|----------------|-----------|------------------|------------|----------------|----------------|--------------|---------------------|
| CMBS                       | \$            | 354,813        | \$        | 600,514          | \$         | 691,573        | \$             | 5,152        | \$ 1,652,052        |
| CMBS interest-only         |               | 1,695          |           | 370,583          |            | 10,748         |                |              | 383,026             |
| GNMA interest-only         |               |                |           | 54,935           |            | 24,286         |                |              | 79,221              |
| GN construction securities |               |                |           | 540              |            | 22,464         |                |              | 23,004              |
| GN permanent securities    |               |                |           | 9,515            |            | 29,797         |                |              | 39,312              |
| <b>Total</b>               | <b>\$</b>     | <b>356,508</b> | <b>\$</b> | <b>1,036,087</b> | <b>\$</b>  | <b>778,868</b> | <b>\$</b>      | <b>5,152</b> | <b>\$ 2,176,615</b> |

*December 31, 2013*

| Asset Type                 | Within 1 year |                | 1-5 years |                | 5-10 years |                | After 10 years |              | Total               |
|----------------------------|---------------|----------------|-----------|----------------|------------|----------------|----------------|--------------|---------------------|
| CMBS                       | \$            | 175,042        | \$        | 390,116        | \$         | 599,778        | \$             |              | \$ 1,164,936        |
| CMBS interest-only         |               | 7,482          |           | 250,576        |            |                |                |              | 258,058             |
| GNMA interest-only         |               | 371            |           | 94,001         |            | 5,505          |                |              | 99,877              |
| FHLMC interest-only        |               |                |           | 8,152          |            |                |                |              | 8,152               |
| GN construction securities |               |                |           | 3,280          |            | 9,727          |                |              | 13,007              |
| GN permanent securities    |               | 62,605         |           | 15,080         |            | 28,841         |                | 6,690        | 113,216             |
| <b>Total</b>               | <b>\$</b>     | <b>245,500</b> | <b>\$</b> | <b>761,205</b> | <b>\$</b>  | <b>643,851</b> | <b>\$</b>      | <b>6,690</b> | <b>\$ 1,657,246</b> |

There were \$502,609 and \$2,074,745 unrealized losses on securities recorded as other than temporary impairments for the three and nine months ended September 30, 2014, respectively, included in gain on securities in the combined consolidated statements of income. There were \$1,362,013 unrealized losses on securities recorded as other than temporary impairments for the three and nine months ended September 30, 2013.

Table of Contents

**6. REAL ESTATE, NET**

**Acquisitions**

During the nine months ended September 30, 2014, the Company acquired the following properties:

- One retail property subject to long-term net lease obligations in O Fallon, IL for \$8,000,000 (\$2,487,771 land, \$5,387,710 building, \$124,519 intangibles). At August 8, 2014, the date of acquisition, the retail property was 100.0% leased and occupied.
- One retail property subject to long-term net lease obligations in El Centro, CA for \$4,276,938 (\$568,770 land, \$3,133,440 building, \$574,728 intangibles). At August 8, 2014, the date of acquisition, the retail property was 100.0% leased and occupied.
- A portfolio of seven office buildings in Richmond, VA for \$19,850,000 (\$4,538,645 land, \$12,633,194 building, \$2,678,161 intangibles), through a consolidated, majority-owned joint venture. At August 14, 2014, the date of acquisition, the portfolio of office building was 90.1% leased and occupied.
- One industrial property subject to long-term net lease obligations in Conyers, GA for \$32,530,000 (\$875,802 land, \$27,396,474 building, \$4,257,724 intangibles). At August 28, 2014, the date of acquisition, the industrial property was 100.0% leased and occupied.
- A portfolio of four office buildings in St. Paul, MN for \$62,339,752 (\$9,415,121 land, \$33,681,787 building, \$19,242,844 intangibles), through a consolidated, majority-owned joint venture. At September 22, 2014, the date of acquisition, the portfolio of office building was 100.0% leased and occupied.

During the nine months ended September 30, 2013, the Company acquired the following properties:

- One single-tenant retail property subject to long-term net lease obligations for a total of \$4,990,742 (\$593,502 land, \$3,899,528 building, \$497,712 intangibles). At January 28, 2013, the date of acquisition, the retail property was 100% leased and occupied.

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

- One 13-story office building in Southfield, MI for \$18,000,000 (\$1,146,864 land, \$7,706,897 building, \$9,146,239 intangibles), through a consolidated, majority-owned joint venture. At February 1, 2013, the date of acquisition, the office building was 83.8% leased and occupied.
- A portfolio of 14 office buildings in Richmond, VA for \$135,000,000 (\$15,904,485 land, \$99,374,779 building, \$19,720,736 intangibles), through a consolidated, majority-owned joint venture. At June 7, 2013, the date of acquisition, the portfolio of office building was 97.6% leased and 96.6% occupied.

### Sales

The Company sold the following properties during the nine months ended September 30, 2014:

- On May 16, 2014, the Company sold one single-tenant retail property in Tilton, NH, subject to long-term net lease obligations, for a total of \$8,426,444, resulting in a net gain on sale of \$1,683,107.
- On June 25, 2014, the Company sold one office building in Richmond, VA, subject to long-term lease obligations, for a total of \$16,793,524, resulting in a net gain on sale of \$1,151,299.
- On September 30, 2014, the Company sold one single-tenant retail property in Yulee, FL, subject to long-term net lease obligations, for a total of \$1,436,295, resulting in a net gain on sale of \$190,283. This property was previously classified as real estate, available for sale on the combined consolidated statement of financial condition.
- On September 30, 2014, the Company sold one single-tenant retail property in Middleburg, FL, subject to long-term net lease obligations, for a total of \$1,261,540, resulting in a net gain on sale of \$185,107. This property was previously classified as real estate, available for sale on the combined consolidated statement of financial condition.

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

### Table of Contents

- On September 30, 2014, the Company sold one single-tenant retail property in Jonesboro, AR, subject to long-term net lease obligations, for a total of \$9,412,847, resulting in a net gain on sale of \$1,396,492. This property was previously classified as real estate, available for sale on the combined consolidated statement of financial condition.
  
- On September 30, 2014, the Company sold one single-tenant retail property in Mt. Juliet, TN, subject to long-term net lease obligations, for a total of \$10,167,727, resulting in a net gain on sale of \$1,443,399. This property was previously classified as real estate, available for sale on the combined consolidated statement of financial condition.
  
- 96 residential condominium units in Veer Towers in Las Vegas, NV, which were sold for \$46,212,247, resulting in a net gain on sale of \$16,177,438.
  
- 34 residential condominium units in Terrazas River Park Village in Miami, FL, which were sold for \$9,745,497, resulting in a net gain on sale of \$1,992,020.

During the nine months ended September 30, 2013, 71 condominium units in Veer Towers were sold for \$27,666,715, resulting in a gain on sale of \$10,887,448. There were no sales of commercial real estate properties during the nine months ended September 30, 2013.

On January 1, 2014, the Company early adopted the new discontinued operations standard and as the properties sold in the nine months ended September 30, 2014 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 during the three and nine months ended September 30, 2014 and 2013 for the three and nine months ended September 30, 2014 and September 30, 2013:

|                                    | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                     |
|------------------------------------|----------------------------------|-------------------|---------------------------------|---------------------|
|                                    | 2014                             | 2013              | 2014                            | 2013                |
| Operating lease income             | \$ 468,587                       | \$ 1,143,912      | \$ 2,682,221                    | \$ 3,210,754        |
| Tenant recoveries                  |                                  | 125,237           | 277,792                         | 158,574             |
| Depreciation and amortization      | (13,867)                         | (665,510)         | (1,223,342)                     | (1,676,030)         |
| <b>Income from properties sold</b> | <b>\$ 454,720</b>                | <b>\$ 603,639</b> | <b>\$ 1,736,671</b>             | <b>\$ 1,693,298</b> |

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

## Table of Contents

The following unaudited pro forma information has been prepared based upon our historical 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 consolidated financial statements and notes thereto. The unaudited pro forma consolidated financial information reflects the 2013 acquisition adjustments made to present financial results as though the acquisition of the properties occurred on January 1, 2012 and 2014 acquisition adjustments made to present financial results as though the acquisition of the properties occurred on January 1, 2013. 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.

|  | Three Months ended September 30, 2014 |              |                           | Nine Months ended September 30, 2014 |               |                           |
|--|---------------------------------------|--------------|---------------------------|--------------------------------------|---------------|---------------------------|
|  | Company<br>Historical                 | Acquisitions | Consolidated<br>Pro Forma | Company<br>Historical                | Acquisitions  | Consolidated<br>Pro Forma |
| Operating lease income   | \$ 12,810,260                         | \$ 3,639,544 | \$ 16,449,804             | \$ 38,826,961                        | \$ 12,966,973 | \$ 51,793,934             |
| Net income   | 37,176,335                            | 422,181      | 37,598,516                | 85,819,850                           | 1,724,592     | 87,544,442                |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures | 306,209                               | (14,043)     | 292,166                   | 451,320                              | (63,210)      | 388,110                   |
| Net (income) loss attributable to predecessor unitholders                                |                                       |              |                           | 12,628,031                           |               | 12,628,031                |
| Net (income) loss attributable to noncontrolling interest in operating partnership       | (22,826,566)                          | (199,988)    | (23,026,554)              | (59,086,094)                         | (814,077)     | (59,900,171)              |
| Net income attributable to Class A common shareholders                                   | 14,655,978                            | 208,150      | 14,864,128                | 39,813,107                           | 847,305       | 40,660,412                |

|  | Three Months ended September 30, 2013 |              |                           | Nine Months ended September 30, 2013 |               |                           |
|--|---------------------------------------|--------------|---------------------------|--------------------------------------|---------------|---------------------------|
|  | Company<br>Historical                 | Acquisitions | Consolidated<br>Pro Forma | Company<br>Historical                | Acquisitions  | Consolidated<br>Pro Forma |
| Operating lease income   | \$ 10,235,147                         | \$ 4,663,715 | \$ 14,898,862             | \$ 25,152,332                        | \$ 21,344,078 | \$ 46,496,410             |
| Net income   | 21,186,532                            | 651,205      | 21,837,737                | 168,988,920                          | 3,870,318     | 172,859,238               |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures | (1,024,751)                           | (24,584)     | (1,049,335)               | (697,721)                            | (379,951)     | (1,077,672)               |
| Net income attributable to preferred and common unit holders                             | 20,161,781                            | 626,622      | 20,788,403                | 168,291,199                          | 3,490,367     | 171,781,566               |

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) exclude transaction costs associated with the properties acquired.

The following table presents additional detail related to our real estate portfolio:

September 30, 2014

December 31, 2013

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

|   |           |                    |           |                    |
|---|-----------|--------------------|-----------|--------------------|
| Land  | \$        | 99,849,956         | \$        | 91,609,368         |
| Building  |           | 493,296,195        |           | 474,301,322        |
| In-place leases and other intangibles           |           | 102,896,321        |           | 83,909,105         |
| Real estate                                     |           | 696,042,472        |           | 649,819,795        |
| Less: Accumulated depreciation and amortization |           | (43,455,040)       |           | (25,600,780)       |
| <b>Real estate, net</b>                         | <b>\$</b> | <b>652,587,432</b> | <b>\$</b> | <b>624,219,015</b> |

The following table presents depreciation and amortization expense on real estate recorded by the Company:

|  | Three Months Ended September 30, |                     | Nine Months Ended September 30, |                      |
|--|----------------------------------|---------------------|---------------------------------|----------------------|
|  | 2014                             | 2013                | 2014                            | 2013                 |
| Depreciation expense (1)                                       | \$ 3,399,208                     | \$ 4,717,116        | \$ 12,713,491                   | \$ 9,468,791         |
| Amortization expense   | 3,293,056                        | 555,854             | 8,149,916                       | 1,729,714            |
| <b>Total real estate depreciation and amortization expense</b> | <b>\$ 6,692,264</b>              | <b>\$ 5,272,970</b> | <b>\$ 20,863,407</b>            | <b>\$ 11,198,505</b> |

(1) Depreciation expense on the combined consolidated statements of income also includes \$136,827 and \$136,827 of depreciation on corporate fixed assets for the three months ended September 30, 2014 and 2013, respectively, and \$410,677 and \$410,481 of depreciation on corporate fixed assets for the nine months ended September 30, 2014 and 2013, respectively.

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

### Table of Contents

The Company's intangible assets are comprised of in-place leases, favorable/unfavorable leases compared to market leases and other intangibles. At September 30, 2014, gross intangible assets totaled \$102,896,321 with total accumulated amortization of \$17,712,030, resulting in net intangible assets of \$85,184,291, including \$2,502,387 of unamortized favorable/unfavorable lease intangibles which are included in real estate, net on the combined consolidated balance sheets. At December 31, 2013, gross intangible assets totaled \$83,909,105 with total accumulated amortization of \$9,675,249, resulting in net intangible assets of \$74,233,856 which are included in real estate, net on the combined consolidated balance sheets. For the three and nine months ended September 30, 2014, the Company recorded an offset against operating lease income of \$187,825 and \$533,060, respectively, for favorable/unfavorable leases, compared to \$148,985 and \$340,642 for the three and nine months ended September 30, 2013, respectively.

There were \$2,294,555 and \$625,283 of unbilled rent receivables included in other assets on the combined consolidated balance sheets as of September 30, 2014 and December 30, 2013, respectively. For the three and nine months ended September 30, 2014, the Company recorded an offset against operating lease income of \$225,338 and \$999,117, respectively, for unbilled rent receivables, compared to none for the three and nine months ended September 30, 2013, respectively.

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 September 30, 2014:

| Period ended December 31, | Amount               |
|---------------------------|----------------------|
| 2014 (last 3 months)      | \$ 3,512,946         |
| 2015                      | 14,277,853           |
| 2016                      | 12,472,293           |
| 2017                      | 7,717,874            |
| 2018                      | 6,994,899            |
| Thereafter                | 37,706,039           |
| <b>Total</b>              | <b>\$ 82,681,904</b> |

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 September 30, 2014:

| Period ended December 31, | Amount                |
|---------------------------|-----------------------|
| 2014 (last 3 months)      | \$ 15,669,067         |
| 2015                      | 56,481,359            |
| 2016                      | 47,210,655            |
| 2017                      | 45,005,852            |
| 2018                      | 42,131,828            |
| Thereafter                | 325,984,516           |
| <b>Total</b>              | <b>\$ 532,483,277</b> |

### 7. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of September 30, 2014, the Company had an aggregate investment of \$5,938,241 in its equity method joint ventures with unaffiliated third parties.

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

As of September 30, 2014, 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 September 30, 2014, 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.



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

## Table of Contents

The following is a summary of the combined financial position of the unconsolidated joint ventures in which the Company had investment interests as of September 30, 2014 and December 31, 2013:

|                           | September 30, 2014 | December 31, 2013 |
|---------------------------|--------------------|-------------------|
| Total assets              | \$ 120,540,289     | \$ 190,415,719    |
| Total liabilities         | 83,906,270         | 112,808,701       |
| Partners /members capital | \$ 36,634,019      | \$ 77,607,018     |

The following is a summary of the Company's investments in unconsolidated joint ventures, which we account for using the equity method, as of September 30, 2014 and December 31, 2013:

| Entity  | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| Ladder Capital Realty Income Partnership I LP         | \$ 3,795,343       | \$ 7,119,864      |
| Grace Lake JV, LLC                                    | 2,142,898          | 2,142,898         |
| Company's investment in unconsolidated joint ventures | \$ 5,938,241       | \$ 9,262,762      |

The following is a summary of the combined results from operations of the unconsolidated joint ventures for the period in which the Company had investment interests during the three and nine months ended September 30, 2014 and 2013:

|                | Three Months Ended September 30, |              | Nine Months Ended September 30, |               |
|----------------|----------------------------------|--------------|---------------------------------|---------------|
|                | 2014                             | 2013         | 2014                            | 2013          |
| Total revenues | \$ 5,700,364                     | \$ 8,152,610 | \$ 19,660,994                   | \$ 28,139,381 |
| Total expenses | 3,726,528                        | 2,511,312    | 12,570,699                      | 8,242,115     |
| Net income     | \$ 1,973,836                     | \$ 5,641,298 | \$ 7,090,295                    | \$ 19,897,266 |

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

### Table of Contents

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 and nine months ended September 30, 2014 and 2013:

| Entity  | Three Months Ended September 30, |              | Nine Months Ended September 30, |              |
|---|----------------------------------|--------------|---------------------------------|--------------|
|   | 2014                             | 2013         | 2014                            | 2013         |
| Ladder Capital Realty Income Partnership I LP             | \$ 101,465                       | \$ 1,102,527 | \$ 987,025                      | \$ 1,941,878 |
| Grace Lake JV, LLC  | 225,000                          | 260,000      | 675,000                         | 410,000      |
| Earnings from investment in unconsolidated joint ventures | \$ 326,465                       | \$ 1,362,527 | \$ 1,662,025                    | \$ 2,351,878 |

#### *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 \$100,000,000. During the three and nine months ended September 30, 2014, the Company recorded \$83,873 and \$312,417, respectively, in management fees, which is reflected in fee income in the combined consolidated statements of income. During the three and nine months ended September 30, 2013, the Company recorded \$150,836 and \$619,697, respectively, in management fees, which is reflected in fee income in the combined consolidated statements of income.

During the three and nine months ended September 30, 2014, there were no sales of loans to LCRIP I. During the three months ended September 30, 2013, there were no sales of loans to LCRIP I. During the nine months ended September 30, 2013, the Company sold one loan to LCRIP I for aggregate proceeds of \$17,200,000, which exceeded its carrying value by \$139,901, and is included in sale of loans, net on the combined consolidated statements of operations. The Company has deferred 10% of the gain on sale of loans to LCRIP I, representing its 10% limited partnership interest, until such loans are subsequently sold by LCRIP I.

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 and nine months ended September 30, 2014 and 2013, the return thresholds were met on certain assets that have been fully realized.

#### *Grace Lake JV, LLC*

In connection with the origination of a loan in April 2012, the Company received a 25% equity kicker with the right to convert upon a capital event. On March 22, 2013, the loan was refinanced and the Company converted its interest into a 25% limited liability company membership interest in Grace Lake JV, which holds an investment in an office building complex. After taking into account the preferred return of 8.25% and the return of all equity remaining in the property to the Company's operating partner, the Company is entitled to 25% of the distribution of all excess cash flows and all disposition proceeds upon any sale. The Company does not participate in losses from its investment.

## 8. FINANCING

### *Committed Loan and Securities Repurchase Facilities*

The Company has entered into multiple committed master repurchase agreements in order to finance its lending activities. The Company has entered into four committed master repurchase agreements, as outlined in the table below, with multiple counterparties totaling \$1,150,000,000 of credit capacity. Assets pledged as collateral under these facilities are limited to whole mortgage loans or participation interests in mortgage loans collateralized by first liens on commercial properties. The Company also has a term master repurchase agreement with a major U.S. bank to finance CMBS totaling \$300,000,000. The Company's repurchase facilities include covenants covering net worth requirements, minimum liquidity levels, and maximum leverage ratios. The Company believes it is in compliance with all covenants as of September 30, 2014 and December 31, 2013.

The Company has the option to extend some of the current facilities subject to a number of conditions, including satisfaction of certain notice requirements, no event of default exists, and no margin deficit exists, all as defined in the repurchase facility agreements. The lenders have sole discretion with respect to the inclusion of collateral in these facilities, to determine the market value of the collateral on a daily basis, to be exercised on a good faith basis, and have the right to require additional collateral, a full and/or partial repayment of the facilities (margin call), or a reduction in unused availability under the facilities, sufficient to rebalance the facilities if the estimated market value of the included collateral declines.

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

### Table of Contents

On April 29, 2014, the Company amended the terms of its master repurchase agreement with a major U.S. bank to finance loans the Company originates to temporarily increase financing capacity on its facility from \$300,000,000 to \$450,000,000 to enable the financing of one of its assets. The increase in capacity has since terminated in accordance with its terms.

On June 17, 2014, the Company amended the terms of its master repurchase agreement with a major U.S. bank to finance loans the Company originates to modify the maximum advance rate available on all classes of assets.

On June 30, 2014, the Company amended its master repurchase agreement with a major U.S. insurance company to finance loans the Company originates to extend the maturity date of the facility to December 31, 2014.

### *Uncommitted Securities Repurchase Facilities*

The Company has also entered into multiple master repurchase agreements with several counterparties collateralized by real estate securities. The borrowings under these agreements have typical advance rates between 65% and 95% of the collateral.

### *September 30, 2014*

|    |             |    |             |    |             |                         |            |   |   |
|----|-------------|----|-------------|----|-------------|-------------------------|------------|---|---|
|    |             |    |             |    |             |                         |            |   |   |
| \$ | 300,000,000 | \$ | 101,857,167 | \$ | 198,142,833 | 2.65%                   | 5/18/2015  | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans |
| \$ |             | \$ | 198,238,446 | \$ |             |                         |            | \$  | 198,238,446                                 |
|    |             |    |             |    |             |                         |            |   |   |
| \$ | 250,000,000 | \$ | 7,751,802   | \$ | 242,248,198 | 3.03%                   | 4/10/2016  | Two additional 364 day periods at Company's option      | First mortgage commercial real estate loans |
| \$ |             | \$ | 13,966,490  | \$ |             |                         |            | \$  | 13,966,490                                  |
|    |             |    |             |    |             |                         |            |   |   |
| \$ | 450,000,000 | \$ | 129,260,249 | \$ | 320,739,751 | Between 2.80% and 3.15% | 5/26/2017  | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans |
| \$ |             | \$ |             | \$ |             |                         |            | \$  |   |
| \$ | 150,000,000 | \$ |             | \$ | 150,000,000 |                         | 12/31/2014 | N/A   |   |
| \$ |             | \$ |             | \$ |             |                         |            | \$  |   |

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

|                  |                |                  |                         |         |  |                  |                  |
|------------------|----------------|------------------|-------------------------|---------|--|------------------|------------------|
|                  |                |                  |                         |         | First mortgage commercial real estate loans        |                  |                  |
| \$ 1,150,000,000 | \$ 238,869,218 | \$ 911,130,782   |                         |         |  | \$ 404,352,125   | \$ 404,430,028   |
|                  |                |                  |                         |         | Investment grade commercial real estate securities |                  |                  |
| \$ 300,000,000   | \$             | \$ 300,000,000   | 4/30/2015               | N/A     |  | \$               | \$               |
|                  |                |                  |                         |         | Investment grade commercial real estate securities |                  |                  |
| \$               | \$ 522,758,000 | \$               | Between 0.45% and 1.65% | Various | N/A  | \$ 612,423,782   | \$ 612,423,782   |
| \$ 1,450,000,000 | \$ 761,627,218 | \$ 1,211,130,782 |                         |         |  | \$ 1,016,775,907 | \$ 1,016,853,810 |

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

## Table of Contents

December 31, 2013

| Committed Amount | Outstanding Amount | Committed but Unfunded | Interest Rate(s) at December 31, 2013 | Maturity  | Remaining Extension Options                             | Eligible Collateral (1)                            | Carrying Amount of Collateral | Fair Value of Collateral |
|------------------|--------------------|------------------------|---------------------------------------|-----------|---|--|-------------------------------|--------------------------|
| \$ 300,000,000   | \$ 22,749,015      | \$ 277,250,985         | Between 2.42% and 2.67%               | 5/18/2015 | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans        | \$ 46,084,620                 | \$ 46,483,618            |
| \$ 250,000,000   | \$ 28,407,500      | \$ 221,592,500         | Between 2.42% and 3.04%               | 4/10/2014 | Two additional 364 day periods at Company's option      | First mortgage commercial real estate loans        | \$ 41,428,429                 | \$ 41,518,063            |
| \$ 450,000,000   | \$ 60,423,328      | \$ 389,576,672         | Between 2.41% and 3.18%               | 5/26/2015 | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans        | \$ 132,160,677                | \$ 132,673,364           |
| \$ 300,000,000   | \$ 47,732,500      | \$ 252,267,500         | Between 2.66% and 2.67%               | 1/24/2014 | N/A   | First mortgage commercial real estate loans        | \$ 65,350,000                 | \$ 65,813,055            |
| \$ 1,300,000,000 | \$ 159,312,343     | \$ 1,140,687,657       |                                       |           |   |  | \$ 285,023,726                | \$ 286,488,100           |
| \$ 600,000,000   | \$ 88,921,450      | \$ 511,078,550         | Between 1.26% and 1.27%               | 4/30/2015 | N/A   | Investment grade commercial real estate securities | \$ 110,400,378                | \$ 110,400,378           |
| \$               | \$ 361,601,000     | \$                     | Between 0.42% and 1.67%               | 1/17/2014 | N/A   | Investment grade commercial real estate securities | \$ 440,721,692                | \$ 440,721,692           |
| \$ 1,900,000,000 | \$ 609,834,793     | \$ 1,651,766,207       |                                       |           |   |  | \$ 836,145,796                | \$ 837,610,170           |

(1) Collateral includes first mortgage commercial real estate loans and investment grade commercial real estate securities. It does not include the real estate collateralizing such loans and securities.

## Borrowings under Credit Agreement

On January 24, 2013, the Company entered into a \$50,000,000 credit agreement with one of its multiple committed financing counterparties in order to finance its securities and lending activities (the "Credit Agreement"). The Credit Agreement terminates on January 24, 2015, with an additional one year extension available. As of September 30, 2014 and December 31, 2013, there were no borrowings outstanding under the Company's Credit Agreement. The Company's Credit Agreement includes covenants covering net worth requirements, minimum liquidity levels, and maximum leverage ratios. The Company believes it is in compliance with all covenants as of September 30, 2014 and December 31, 2013.

#### ***Revolving Credit Facility***

On February 11, 2014, the Company entered into a revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility provides for an aggregate maximum borrowing amount of \$75.0 million, including a \$25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility is available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. The Revolving Credit Facility has a three-year maturity, which maturity may be extended by two twelve-month periods subject to the satisfaction of customary conditions, including the absence of default. Interest on the Revolving Credit Facility is one-month LIBOR plus 3.50% per annum payable monthly in arrears.

The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries. The Revolving Credit Facility is secured by a pledge of the shares of (or other ownership or equity interests in) certain subsidiaries to the extent the pledge is not restricted under existing regulations, law or contractual obligations.

The Revolving Credit Facility is subject to customary affirmative covenants and negative covenants, including limitations on the incurrence of additional debt, liens, restricted payments, sales of assets and affiliate transactions. In addition, under the Revolving Credit Facility, LCFH is required to comply with financial covenants relating to minimum net worth, maximum leverage, minimum liquidity, and minimum fixed charge coverage, consistent with our other credit facilities. Our ability to borrow under the Revolving Credit Facility is dependent on, among other things, LCFH's compliance with the financial covenants. The Revolving Credit Facility contains customary events of default, including non-payment of principal or interest, fees or other amounts, failure to perform or observe covenants, cross-default to other indebtedness, the rendering of judgments against the Company or certain of our subsidiaries to pay certain amounts of money and certain events of bankruptcy or insolvency.

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

### Table of Contents

As of September 30, 2014, there were no borrowings outstanding under the Revolving Credit Facility.

### ***Mortgage Loan Financing***

During the nine months ended September 30, 2014, the Company executed five term debt agreements to finance properties in its real estate portfolio. During the nine months ended September 30, 2013, the Company executed 16 term debt agreements to finance such real estate. These nonrecourse debt agreements are fixed rate financing at rates ranging from 4.25% to 6.75%, maturing in 2018, 2020, 2021, 2022, 2023 and 2024 and totaling \$398,265,284 at September 30, 2014 and \$291,053,406 at December 31, 2013. These long-term nonrecourse mortgages include net unamortized premiums of \$4,441,757 and \$3,807,479 at September 30, 2014 and December 31, 2013, respectively, representing proceeds received upon financing greater than the contractual amounts due under the agreements. The premiums are being amortized over the remaining life of the respective debt instruments using the effective interest method. The Company recorded \$165,316 and \$471,162 of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2014, respectively. The Company recorded \$140,630 and \$403,203 of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2013, respectively. The loans are collateralized by real estate, net of \$520,527,333 and \$401,262,302 as of September 30, 2014 and December 31, 2013, respectively.

### ***Borrowings from the Federal Home Loan Bank ( FHLB )***

On July 11, 2012, Tuebor Captive Insurance Company LLC ( Tuebor ), a wholly-owned consolidated subsidiary, became a member of the FHLB and subsequently drew its first secured funding advances from the FHLB. As of September 30, 2014, Tuebor had \$1,291,000,000 of borrowings outstanding (with an additional \$251,351,750 of committed term financing available from the FHLB), with terms of overnight to 10 years, interest rates of 0.32% to 2.74%, and advance rates of 54% to 100% of the collateral. As of September 30, 2014, collateral for the borrowings was comprised of \$1,299,057,858 of CMBS and U.S. Agency Securities and \$330,093,579 of first mortgage commercial real estate loans. On May 29, 2014, Tuebor's advance limit was increased to the lesser of \$1.9 billion or 33% of Ladder Capital Corp's total assets. As of December 31, 2013, Tuebor had \$989,000,000 of borrowings outstanding (with an additional \$416,000,000 of committed term financing available from the FHLB), with terms of overnight to 7 years, interest rates of 0.20% to 2.40%, and advance rates of 57% to 95% of the collateral. As of December 31, 2013, collateral for the borrowings was comprised of \$1,013,640,649 of CMBS and U.S. Agency Securities and \$276,722,665 of first mortgage commercial real estate loans.

Tuebor is subject to state regulations which require that dividends (including dividends to the Company as its parent) may only be made with regulatory approval. However, there can be no assurance that we would obtain such approval if sought. Largely as a result of this restriction, approximately \$247.7 million of the member's capital were restricted from transfer to Tuebor's parent without prior approval of state insurance regulators at September 30, 2014.

### ***Senior Unsecured Notes***

On August 1, 2014, LCFH issued \$300,000,000 in aggregate principal amount of 5.875% senior notes due 2021 (the 2021 Notes ). The 2021 Notes require interest payments semi-annually in cash in arrears on February 1 and August 1 of each year, beginning on February 1, 2015. The 2021 Notes will mature on August 1, 2021. The 2021 Notes are unsecured and are subject to incurrence-based covenants, including limitations



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

on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type.

On September 14, 2012, LCFH issued \$325,000,000 in aggregate principal amount of 7.375% Senior Notes due October 1, 2017 (the 2017 Notes ). The 2017 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on September 19, 2012. The 2017 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type.

LCFH issued the 2021 Notes and the 2017 Notes (collectively, the Notes ) with Ladder Capital Finance Corporation ( LCFC ), as co-issuers on a joint and several basis. LCFC is a 100% owned finance subsidiary of LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. Ladder Capital Corp and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. Ladder Capital Corp is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of September 30, 2014, Ladder Capital Corp has a 51.9% economic interest in LCFH, and has a majority voting interest and

Table of Contents

controls the management of LCFH as a result of its ability to appoint 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. 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.

***Combined Maturity of Debt Obligations***

The following schedule reflects the Company's contractual payments under all borrowings by maturity:

| <b>Period ending December 31,</b> | <b>Borrowings by<br/>Maturity</b> |
|-----------------------------------|-----------------------------------|
| 2014 (last 3 months)              | \$ 633,264,482                    |
| 2015                              | 651,623,075                       |
| 2016                              | 311,175,762                       |
| 2017                              | 485,012,932                       |
| 2018                              | 56,578,480                        |
| Thereafter                        | 933,796,014                       |
| <b>Total</b>                      | <b>\$ 3,071,450,745</b>           |

Table of Contents**9. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is based upon market quotations, broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. The fair value of the mortgage loan receivables held for sale is based upon a securitization model utilizing market data from recent securitization spreads and pricing.

*Fair Value Summary Table*

The carrying values and estimated fair values of the Company's financial instruments, which are both reported at fair value on a recurring basis (as indicated) or amortized cost/par, at September 30, 2014 and December 31, 2013 are as follows (\$ in thousands):

*September 30, 2014*

|   | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Fair Value   | Fair Value<br>Method                  | Yield<br>% | Weighted Average<br>Remaining<br>Maturity/Duration (years) |
|---|----------------------------|-------------------------|--------------|---------------------------------------|------------|--|
| <b>Assets:</b>  |                            |                         |              |                                       |            |  |
| CMBS(1)   | \$ 1,617,189               | \$ 1,635,179            | \$ 1,652,052 | Internal model,<br>third-party inputs | 3.04%      | 3.83   |
| CMBS interest-only(1)   | 7,393,639(8)               | 378,500                 | 383,026      | Internal model,<br>third-party inputs | 3.98%      | 3.38   |
| GNMA interest-only(1)   | 1,613,053(8)               | 81,808                  | 79,221       | Internal model,<br>third-party inputs | 6.89%      | 4.56   |
| GN construction<br>securities(1)                                      | 23,083                     | 23,630                  | 23,004       | Internal model,<br>third-party inputs | 3.52%      | 6.88   |
| GN permanent<br>securities(1)   | 36,524                     | 37,594                  | 39,312       | Internal model,<br>third-party inputs | 4.95%      | 6.12   |
| Mortgage loan receivable<br>held for investment, at<br>amortized cost | 1,339,079                  | 1,323,279               | 1,334,705    | Discounted Cash<br>Flow(4)            | 7.70%      | 2.00   |
| Mortgage loan receivable<br>held for sale                             | 206,415                    | 206,501                 | 214,122      | Discounted Cash<br>Flow(5)            | 4.80%      | 9.51   |
| FHLB stock(6)   | 59,740                     | 59,740                  | 59,740       | (6)                                   | 3.50%      | N/A  |
| Nonhedge<br>derivatives(1)(7)   | 1,367,110                  | N/A                     | 5,751        | Counterparty<br>quotations            | N/A        | 0.31   |
| <b>Liabilities:</b>   |                            |                         |              |                                       |            |  |
| Repurchase agreements -<br>short-term                                 | 753,875                    | 753,875                 | 753,875      | Discounted Cash<br>Flow(2)            | 1.23%      | 0.24   |
| Repurchase agreements -<br>long-term                                  | 7,752                      | 7,752                   | 7,752        | Discounted Cash<br>Flow(2)            | 2.40%      | 1.53   |
| Mortgage loan financing   | 407,348                    | 398,265                 | 398,385      | Discounted Cash<br>Flow(3)            | 4.86%      | 8.54   |
| Borrowings from the<br>FHLB   | 1,291,000                  | 1,291,000               | 1,289,094    | Discounted Cash<br>Flow(2)            | 0.88%      | 2.58   |
| Senior unsecured notes  | 625,000                    | 625,000                 | 640,281      | Broker<br>quotations,                 | 6.66%      | 4.84   |

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

|                   |         |     |       | pricing services |     |      |
|-------------------|---------|-----|-------|------------------|-----|------|
| Nonhedge          |         |     |       | Counterparty     |     |      |
| derivatives(1)(7) | 154,500 | N/A | 7,530 | quotations       | N/A | 3.53 |

(1) Measured at fair value on a recurring basis with the net unrealized gains or losses on all securities, except for Agency interest-only securities, recorded as a component of other comprehensive income (loss) in equity.

(2) Fair value for repurchase agreement liabilities is estimated to approximate carrying amount primarily due to the short interest rate reset risk (30 days) of the financings and the high credit quality of the assets collateralizing these positions. For the borrowings from the FHLB, the carrying value approximates the fair value discounting the expected cash flows. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

(3) For the mortgage loan financing, the carrying value approximates the fair value discounting the expected cash flows at current market rates. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

(4) Fair value for mortgage loan receivables, held for investment is estimated to approximate the outstanding face amount given the short interest rate reset risk (30 days) and no significant change in credit risk.

(5) Fair value for mortgage loan receivables, held for sale is measured using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing.

(6) The fair value of the FHLB stock approximates outstanding face amount as the Company's wholly-owned subsidiary is restricted from trading the stock and can only put the stock back to the FHLB, at the FHLB's discretion, at par.

(7) The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.

(8) Represents notional outstanding balance of underlying collateral.

Edgar Filing: Ladder Capital Corp - Form 10-Q

Table of Contents

December 31, 2013

|   | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Fair Value   | Fair Value<br>Method                   | Yield<br>% | Weighted Average<br>Remaining<br>Maturity/Duration (years) |
|---|----------------------------|-------------------------|--------------|--|------------|--|
| <b>Assets:</b>  |                            |                         |              |  |            |  |
| CMBS(1)   | \$ 1,160,741               | \$ 1,156,230            | \$ 1,164,936 | Broker quotations,<br>pricing services | 4.08%      | 4.88   |
| CMBS interest-only(1)   | 5,702,862(8)               | 256,869                 | 258,058      | Broker quotations,<br>pricing services | 4.19%      | 3.38   |
| GNMA interest-only(1)   | 1,848,270(8)               | 103,136                 | 99,877       | Broker quotations,<br>pricing services | 5.32%      | 2.12   |
| FHLMC interest-only(1)  | 219,677(8)                 | 7,904                   | 8,152        | Broker quotations,<br>pricing services | 5.21%      | 3.04   |
| GN construction securities(1)                                   | 12,858                     | 13,261                  | 13,007       | Broker quotations,<br>pricing services | 3.49%      | 6.57   |
| GN permanent securities(1)                                      | 108,310                    | 110,724                 | 113,216      | Broker quotations,<br>pricing services | 4.64%      | 3.27   |
| Mortgage loan receivable held for investment, at amortized cost | 549,574                    | 539,078                 | 541,578      | Discounted Cash Flow(4)                | 9.76%      | 2.14   |
| Mortgage loan receivable held for sale                          | 440,775                    | 440,490                 | 455,804      | Discounted Cash Flow(5)                | 5.47%      | 9.62   |
| FHLB stock(6)   | 49,450                     | 49,450                  | 49,450       | (6)                                    | 3.50%      | N/A  |
| Nonhedge derivatives(1)(7)                                      | 808,700                    | N/A                     | 8,244        | Counterparty quotations                | N/A        | 0.50   |
| <b>Liabilities:</b>   |                            |                         |              |  |            |  |
| Repurchase agreements - short-term                              | 409,334                    | 409,334                 | 409,334      | Discounted Cash Flow(2)                | 1.46%      | 0.04   |
| Repurchase agreements - long-term                               | 200,501                    | 200,501                 | 200,501      | Discounted Cash Flow(2)                | 2.13%      | 1.49   |
| Mortgage loan financing   | 287,246                    | 291,053                 | 278,129      | Discounted Cash Flow(3)                | 4.84%      | 8.70   |
| Borrowings from the FHLB  | 989,000                    | 989,000                 | 987,896      | Discounted Cash Flow(2)                | 0.57%      | 1.60   |
| Senior unsecured notes  | 325,000                    | 325,000                 | 341,250      | Broker quotations,<br>pricing services | 7.38%      | 3.75   |
| Nonhedge derivatives(1)(7)                                      | 154,500                    | N/A                     | 7,031        | Counterparty quotations                | N/A        | 4.55   |

(1) Measured at fair value on a recurring basis with the net unrealized gains or losses on all securities, except for Agency interest-only securities, recorded as a component of other comprehensive income (loss) in equity.

(2) Fair value for repurchase agreement liabilities is estimated to approximate carrying amount primarily due to the short interest rate reset risk (30 days) of the financings and the high credit quality of the assets collateralizing these positions. For the borrowings from the FHLB, the carrying value approximates the fair value discounting the expected cash flows. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

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

(3) For the mortgage loan financing, the carrying value approximates the fair value discounting the expected cash flows at current market rates. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

(4) Fair value for mortgage loan receivables, held for investment is estimated to approximate the outstanding face amount given the short interest rate reset risk (30 days) and no significant change in credit risk.

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

### Table of Contents

(5) Fair value for mortgage loan receivables, held for sale is measured using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing.

(6) The fair value of the FHLB stock approximates outstanding face amount as the Company's wholly-owned subsidiary is restricted from trading the stock and can only put the stock back to the FHLB, at the FHLB's discretion, at par.

(7) The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.

(8) Represents notional outstanding balance of underlying collateral.

The following table summarizes the Company's financial assets and liabilities, which are both reported at fair value on a recurring basis (as indicated) or amortized cost/par, at September 30, 2014 and December 31, 2013 (\$ in thousands):

### *September 30, 2014*

|  | Outstanding Face<br>Amount | Level 1 | Level 2 | Fair Value<br>Level 3 | Total        |
|--|----------------------------|---------|---------|-----------------------|--------------|
| <b>Assets:</b>                               |                            |         |         |                       |              |
| CMBS(1)                                      | \$ 1,617,189               | \$      | \$      | \$ 1,652,052          | \$ 1,652,052 |
| CMBS interest-only(1)                        | 7,393,639(2)               |         |         | 383,026               | 383,026      |
| GNMA interest-only(1)                        | 1,613,053(2)               |         | 79,221  |                       | 79,221       |
| GN construction securities(1)                | 23,083                     |         | 23,004  |                       | 23,004       |
| GN permanent securities(1)                   | 36,524                     |         | 39,312  |                       | 39,312       |
| Mortgage loan receivable held for investment | 1,339,079                  |         |         | 1,334,705             | 1,334,705    |
| Mortgage loan receivable held for sale       | 206,415                    |         |         | 214,122               | 214,122      |
| FHLB stock                                   | 59,740                     |         |         | 59,740                | 59,740       |
| Nonhedge derivatives(1)                      | 1,367,110                  |         | 5,751   |                       | 5,751        |
| <b>Liabilities:</b>                          |                            |         |         |                       |              |
| Repurchase agreements - short-term           | 753,875                    |         | 753,875 |                       | 753,875      |
| Repurchase agreements - long-term            | 7,752                      |         | 7,752   |                       | 7,752        |
| Mortgage loan financing                      | 407,348                    |         |         | 398,385               | 398,385      |
| Borrowings from the FHLB                     | 1,291,000                  |         |         | 1,289,094             | 1,289,094    |
| Senior unsecured notes                       | 625,000                    |         | 640,281 |                       | 640,281      |
| Nonhedge derivatives(1)                      | 154,500                    |         | 7,530   |                       | 7,530        |

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

## Table of Contents

*December 31, 2013*

|   | Outstanding Face<br>Amount | Level 1 | Level 2 | Fair Value<br>Level 3 | Total        |
|---|----------------------------|---------|---------|-----------------------|--------------|
| <b>Assets:</b>                                  |                            |         |         |                       |              |
| CMBS(1)   | \$ 1,160,741               | \$      | \$      | \$ 1,164,936          | \$ 1,164,936 |
| CMBS interest-only(1)                           | 5,702,862(2)               |         |         | 258,058               | 258,058      |
| GNMA interest-only(1)                           | 1,848,270(2)               |         | 99,877  |                       | 99,877       |
| FHLMC interest-only(1)                          | 219,677(2)                 |         | 8,152   |                       | 8,152        |
| GN construction securities(1)                   | 12,858                     |         | 13,007  |                       | 13,007       |
| GN permanent securities(1)                      | 108,310                    |         | 113,216 |                       | 113,216      |
| Mortgage loan receivable held for<br>investment | 549,574                    |         |         | 541,578               | 541,578      |
| Mortgage loan receivable held for<br>sale       | 440,775                    |         |         | 455,804               | 455,804      |
| FHLB stock                                      | 49,450                     |         |         | 49,450                | 49,450       |
| Nonhedge derivatives(1)                         | 808,700                    |         | 8,244   |                       | 8,244        |
| <b>Liabilities:</b>                             |                            |         |         |                       |              |
| Repurchase agreements - short-term              | 409,334                    |         | 409,334 |                       | 409,334      |
| Repurchase agreements - long-term               | 200,501                    |         | 200,501 |                       | 200,501      |
| Mortgage loan financing                         | 287,246                    |         |         | 278,129               | 278,129      |
| Borrowings from the FHLB                        | 989,000                    |         |         | 987,896               | 987,896      |
| Senior unsecured notes                          | 325,000                    |         | 341,250 |                       | 341,250      |
| Nonhedge derivatives(1)                         | 154,500                    |         | 7,031   |                       | 7,031        |

(1) Measured at fair value on a recurring basis. The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.

(2) Represents notional outstanding balance of underlying collateral.

## 10. DERIVATIVE INSTRUMENTS

The Company uses derivative instruments primarily to economically manage the fair value variability of fixed rate assets caused by interest rate fluctuations and overall portfolio market risk. The following is a breakdown of the derivatives outstanding as of September 30, 2014 and December 31, 2013:

*September 30, 2014*



Edgar Filing: Ladder Capital Corp - Form 10-Q

| Contract Type                      | Notional                | Asset(1)            | Fair Value<br>Liability(1) | Remaining<br>Maturity<br>(years) |
|------------------------------------|-------------------------|---------------------|----------------------------|----------------------------------|
| <b>Caps</b>                        |                         |                     |                            |                                  |
| 1MO LIB                            | \$ 71,250,000           | \$ 30               | \$                         | 0.66                             |
| <b>Futures</b>                     |                         |                     |                            |                                  |
| 5-year Swap                        | \$ 658,300,000          | \$ 1,335,015        | \$ 23,938                  | 0.25                             |
| 10-year Swap                       | 627,500,000             | 4,077,848           | 563,563                    | 0.25                             |
| <b>Total futures</b>               | <b>1,285,800,000</b>    | <b>5,412,863</b>    | <b>587,501</b>             |                                  |
| <b>Swaps</b>                       |                         |                     |                            |                                  |
| 3MO LIB                            | 121,000,000             |                     | 6,337,809                  | 3.77                             |
| <b>Credit Derivatives</b>          |                         |                     |                            |                                  |
| CMBX                               | 10,000,000              | 208,310             |                            | 6.96                             |
| CDX                                | 33,500,000              |                     | 604,258                    | 4.22                             |
| SPX VOLATILITY INDEX CALL 11/19/14 | 60,000                  | 129,451             |                            | 0.14                             |
| <b>Total credit derivatives</b>    | <b>43,560,000</b>       | <b>337,761</b>      | <b>604,258</b>             |                                  |
| <b>Total derivatives</b>           | <b>\$ 1,521,610,000</b> | <b>\$ 5,750,654</b> | <b>\$ 7,529,568</b>        |                                  |

Edgar Filing: Ladder Capital Corp - Form 10-Q

Table of Contents

December 31, 2013

| Contract Type                   | Notional                | Asset(1)            | Fair Value<br>Liability(1) | Remaining<br>Maturity<br>(years) |
|---------------------------------|-------------------------|---------------------|----------------------------|----------------------------------|
| <b>Caps</b>                     |                         |                     |                            |                                  |
| 1MO LIB                         | \$ 71,250,000           | \$                  | \$                         | 0.14                             |
| <b>Futures</b>                  |                         |                     |                            |                                  |
| 5-year Swap                     | \$ 45,000,000           | \$ 402,719          | \$                         | 0.25                             |
| 10-year Swap                    | 753,700,000             | 7,589,466           |                            | 0.25                             |
| <b>Total futures</b>            | <b>798,700,000</b>      | <b>7,992,185</b>    |                            |                                  |
| <b>Swaps</b>                    |                         |                     |                            |                                  |
| 3MO LIB                         | 121,000,000             |                     | 6,420,495                  | 4.51                             |
| <b>Credit Derivatives</b>       |                         |                     |                            |                                  |
| CMBX                            | 10,000,000              | 252,170             |                            | 8.38                             |
| CDX                             | 33,500,000              |                     | 610,538                    | 4.97                             |
| <b>Total credit derivatives</b> | <b>43,500,000</b>       | <b>252,170</b>      | <b>610,538</b>             |                                  |
| <b>Total derivatives</b>        | <b>\$ 1,034,450,000</b> | <b>\$ 8,244,355</b> | <b>\$ 7,031,033</b>        |                                  |

(1) Shown as derivative instruments, at fair value, in the accompanying combined consolidated balance sheets.

The following table indicates the net realized gains/(losses) and unrealized appreciation/(depreciation) on derivatives, by primary underlying risk exposure, as included in net result from derivatives transactions in the combined consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013:

| Contract Type         | Three Months Ended September 30, 2014 |                         |  | Nine Months Ended September 30, 2014 |                         |  |
|-----------------------|---------------------------------------|-------------------------|--|--------------------------------------|-------------------------|--|
|                       | Unrealized<br>Gain/(Loss)             | Realized<br>Gain/(Loss) | Net Result<br>from<br>Derivative<br>Transactions | Unrealized<br>Gain/(Loss)            | Realized<br>Gain/(Loss) | Net Result<br>from<br>Derivative<br>Transactions |
| Caps                  | \$ (55)                               | \$                      | \$ (55)  | \$ 30                                | \$ (7,125)              | \$ (7,095)                                       |
| Futures               | 12,667,516                            | (11,937,102)            | 730,414  | (3,165,849)                          | (44,808,573)            | (47,974,422)                                     |
| Swaps                 | 1,103,053                             | (801,092)               | 301,961  | 362,609                              | (2,403,013)             | (2,040,404)                                      |
| Credit<br>Derivatives | 191,255                               | (98,389)                | 92,866   | (19,660)                             | (393,223)               | (412,883)  |
| <b>Total</b>          | <b>\$ 13,961,769</b>                  | <b>\$ (12,836,583)</b>  | <b>\$ 1,125,186</b>                              | <b>\$ (2,822,870)</b>                | <b>\$ (47,611,934)</b>  | <b>\$ (50,434,804)</b>                           |

| Contract Type | Three Months Ended September 30, 2013 |                         |  | Nine Months Ended September 30, 2013 |                         |  |
|---------------|---------------------------------------|-------------------------|--|--------------------------------------|-------------------------|--|
|               | Unrealized<br>Gain/(Loss)             | Realized<br>Gain/(Loss) | Net Result<br>from<br>Derivative<br>Transactions | Unrealized<br>Gain/(Loss)            | Realized<br>Gain/(Loss) | Net Result<br>from<br>Derivative<br>Transactions |
| Caps          | \$ (123)                              | \$                      | \$ (123)   | \$ (21)                              | \$                      | \$ (21)  |

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

|              |                        |                      |                       |                       |                      |                      |
|--------------|------------------------|----------------------|-----------------------|-----------------------|----------------------|----------------------|
| Futures      | (25,537,287)           | 20,195,418           | (5,341,869)           | (14,535,824)          | 28,210,219           | 13,674,395           |
| Swaps        | 937,469                | (1,368,286)          | (430,817)             | 11,180,616            | (5,495,189)          | 5,685,427            |
| Credit       |                        |                      |                       |                       |                      |                      |
| Derivatives  | (442,049)              | (98,389)             | (540,438)             | (1,339,759)           | (1,384,553)          | (2,724,312)          |
| <b>Total</b> | <b>\$ (25,041,990)</b> | <b>\$ 18,728,743</b> | <b>\$ (6,313,247)</b> | <b>\$ (4,694,988)</b> | <b>\$ 21,330,477</b> | <b>\$ 16,635,489</b> |

## Table of Contents

The Company's counterparties held \$22,749,708 and \$21,959,114 of cash margin as collateral for derivatives as of September 30, 2014 and December 31, 2013, respectively, which is included in cash collateral held by brokers in the combined consolidated balance sheets.

### Credit Risk-Related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain a provision whereby if the Company defaults on certain of its indebtedness, the Company could also be declared in default on its derivatives, resulting in an acceleration of payment under the derivatives. As of September 30, 2014 and December 31, 2013, the Company was in compliance with these requirements and not in default on its indebtedness. As of September 30, 2014 and December 31, 2013, there was \$1,187,680 and \$919,315 of cash collateral held by the derivative counterparties for these derivatives, respectively. No additional cash would be required to be posted if the acceleration of payment under the derivatives was triggered.

## 11. OFFSETTING ASSETS AND LIABILITIES

The following table presents both gross information and net information about derivatives and other instruments eligible for offset in the statement of financial position as of September 30, 2014. The Company's accounting policy is to record derivative asset and liability positions on a gross basis, therefore, the following table presents the gross derivative asset and liability positions recorded on the balance sheets while also disclosing the eligible amounts of financial instruments and cash collateral to the extent those amounts could offset the gross amount of derivative asset and liability positions. The actual amounts of collateral posted by or received from counterparties may be in excess than the amounts disclosed in the following table as the following only discloses amounts eligible to be offset to the extent of the recorded gross derivative positions.

As of September 30, 2014

### Offsetting of Financial Assets and Derivative Assets

| Description | Gross amounts of<br>recognized assets | Gross amounts<br>offset in the<br>balance sheet | Net amounts of<br>assets presented<br>in the balance<br>sheet | Gross amounts not offset in the<br>balance sheet<br>Financial<br>instruments | Cash collateral<br>received/(posted)(1) | Net amount   |
|-------------|---------------------------------------|---|---|--|---|--------------|
| Derivatives | \$ 5,750,654                          | \$  | \$ 5,750,654  | \$   | \$                                      | \$ 5,750,654 |
| Total       | \$ 5,750,654                          | \$  | \$ 5,750,654  | \$   | \$                                      | \$ 5,750,654 |

As of September 30, 2014

### Offsetting of Financial Liabilities and Derivative Liabilities

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

| Description           | Gross amounts of |               | Net amounts of   | Gross amounts not offset in the |                      | Net amount |
|-----------------------|------------------|---------------|------------------|---------------------------------|----------------------|------------|
|                       | Gross amounts of | Gross amounts |                  | Financial                       | Cash collateral      |            |
|                       | recognized       | offset in the | liabilities      | instruments                     | posted/(received)(1) |            |
|                       | liabilities      | balance sheet | presented in the | collateral                      |                      |            |
|                       |                  |               | balance sheet    |                                 |                      |            |
| Derivatives           | \$ 7,529,568     | \$            | \$ 7,529,568     | \$                              | \$ 7,529,568         |            |
| Repurchase agreements | 761,627,218      |               | 761,627,218      | 761,627,218                     |                      |            |
| Total                 | \$ 769,156,786   | \$            | \$ 769,156,786   | \$ 761,627,218                  | \$ 7,529,568         | \$         |

(1) Included in cash collateral held by broker on consolidated balance sheets.

Table of Contents

As of December 31, 2013

**Offsetting of Financial Assets and Derivative Assets**

| Description | Gross amounts of<br>recognized assets | Gross amounts<br>offset in the<br>balance sheet | Net amounts of<br>assets presented<br>in the balance<br>sheet | Gross amounts not offset in the<br>balance sheet<br>Financial<br>instruments | Cash collateral<br>received/(posted)(1) | Net amount   |
|-------------|---------------------------------------|---|---|--|---|--------------|
| Derivatives | \$ 8,244,355                          | \$  | \$ 8,244,355  | \$   | \$                                      | \$ 8,244,355 |
| Total       | \$ 8,244,355                          | \$  | \$ 8,244,355  | \$   | \$                                      | \$ 8,244,355 |

As of December 31, 2013

**Offsetting of Financial Liabilities and Derivative Liabilities**

| Description              | Gross amounts of<br>recognized<br>liabilities | Gross amounts<br>offset in the<br>balance sheet | Net amounts of<br>liabilities<br>presented in the<br>balance sheet | Gross amounts not offset in the<br>balance sheet<br>Financial<br>instruments<br>collateral | Cash collateral<br>posted/(received)(1) | Net amount |
|--------------------------|---|---|--|--|---|------------|
| Derivatives              | \$ 7,031,033                                  | \$  | \$ 7,031,033   | \$   | \$ 7,031,033                            | \$         |
| Repurchase<br>agreements | 609,834,793                                   |   | 609,834,793  | 609,834,793  |   |            |
| Total                    | \$ 616,865,826                                | \$  | \$ 616,865,826   | \$ 609,834,793   | \$ 7,031,033                            | \$         |

(1) Included in cash collateral held by broker on consolidated balance sheets.

Master netting agreements that the Company has entered into with its derivative and repurchase agreement counterparties allow for netting of the same transaction, in the same currency, on the same date. Assets, liabilities, and collateral subject to master netting agreements as of September 30, 2014 and December 31, 2013 are disclosed in the tables above. The Company does not present its derivative and repurchase agreements net on the combined consolidated financial statements as it has elected gross presentation.

**12. EARNINGS PER SHARE**

The Company's net income and weighted average shares outstanding for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014 consists of the following:

(In thousands except share amounts)

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

|  | For the Three<br>Months Ended<br>September 30,<br>2014 | For the Period<br>February 11, 2014<br>through<br>September 30,<br>2014 |
|--|--|---|
| Basic Net income available for Class A common stockholders   | \$ 14,656  | \$ 39,813   |
| Diluted Net income available for Class A common stockholders | \$ 27,433  | \$ 72,699   |
| Weighted average shares outstanding                          |  |   |
| Basic  | 49,394,399   | 49,101,904  |
| Diluted  | 97,918,235   | 97,750,385  |

Net income per share information is not applicable for reporting periods prior to February 11, 2014. The calculation of basic and diluted net income per share amounts for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014 are described and presented below.

## Table of Contents

### Basic Net Income per Share

*Numerator*-utilizes net income available for Class A common shareholders for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014, respectively.

*Denominator*-utilizes the weighted average shares of Class A common stock for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014, respectively.

### Diluted Net Income per Share

*Numerator*-utilizes net income available for Class A common shareholders for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014, respectively, for the basic net income per share calculation described above, adding net income amounts attributable to the noncontrolling interest in the Operating Partnership using the as-if converted method for the Class B common shareholders while adjusting for additional corporate income tax expense for the described net income add back.

*Denominator*-utilizes the weighted average number of shares of Class A common stock for the three months ended September 30, 2014 and the period February 11, 2014 through September 30, 2014, respectively, for the basic net income per share calculation described above adding the dilutive effect of shares issuable relating to Operating Partnership exchangeable interests and the incremental shares of unvested Class A restricted stock using the treasury method.

|   | For the Three<br>Months Ended<br>September 30,<br>2014 | For the Period<br>February 11, 2014<br>through<br>September 30,<br>2014 |
|---|--|---|
| (In thousands except share amounts)   |  |   |
| <b>Basic Net Income Per Share of Class A Common Stock</b>                               |  |   |
| Numerator:  |  |   |
| Net income attributable to Class A common shareholders                                  | \$ 14,656  | \$ 39,813   |
| Denominator:  |  |   |
| Weighted average number of shares of Class A common stock outstanding                   | 49,394,399   | 49,101,904  |
| Basic net income per share of Class A common stock                                      | \$ 0.30  | \$ 0.81   |
| <b>Diluted Net Income Per Share of Class A Common Stock</b>                             |  |   |
| Numerator:  |  |   |
| Net income attributable to Class A common shareholders                                  | \$ 14,656  | \$ 39,813   |
| Add (deduct) - dilutive effect of:  |  |   |
| Amounts attributable to operating partnership's share of Ladder Capital Corp net income | 22,827   | 59,086  |
| Additional corporate tax  | (10,050)   | (26,200)  |
| Diluted net income attributable to Class A common shareholders                          | \$ 27,433  | \$ 72,699   |
| Denominator:  |  |   |
| Basic weighted average number of shares of Class A common stock outstanding             | 49,394,399   | 49,101,904  |
| Add - dilutive effect of:   |  |   |



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

|   |            |            |
|---|------------|------------|
| Shares issuable relating to converted Class B common shareholders             | 48,046,807 | 48,341,572 |
| Incremental shares of unvested Class A restricted stock                       | 477,029    | 306,909    |
| Diluted weighted average number of shares of Class A common stock outstanding | 97,918,235 | 97,750,385 |
| Diluted net income per share of Class A common stock                          | \$ 0.28    | \$ 0.74    |

The shares of Class B common stock do not share in the earnings of Ladder Capital Corp and are, therefore, not participating securities. Accordingly, basic and diluted net income per share of Class B common stock has not been presented, although the assumed conversion of Class B common stock has been included in the presented diluted net income per share.

### 13. CAPITAL STRUCTURE AND ACCOUNTS

A description of the IPO and the Reorganization Transactions is included in Note 1- Organization and Operations.

Subsequent to the IPO Transactions, the Company has two classes of common stock, Class A and Class B, which are described as follows:

Table of Contents

**Class A Common Stock**

*Voting Rights*

Holders of shares of Class A common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. The holders of Class A common stock do not have cumulative voting rights in the election of directors.

*Dividend Rights*

Subject to the rights of the holders of any preferred stock that may be outstanding and any contractual or statutory restrictions, holders of Class A common stock are entitled to receive equally and ratably, share for share, dividends as may be declared by the Board of Directors out of funds legally available to pay dividends. Dividends upon Class A common stock may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, in property, or in shares of capital stock. Before payment of any dividend, there may be set aside out of any funds available for dividends, such sums as the Board of Directors deems proper as reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any of the Company's property, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

*Liquidation Rights*

Upon liquidation, dissolution, distribution of assets or other winding up, the holders of Class A common stock are entitled to receive ratably the assets available for distribution to the shareholders after payment of liabilities and the liquidation preference of any outstanding shares of preferred stock.

*Other Matters*

The shares of Class A common stock have no preemptive or conversion rights and are not subject to further calls or assessment by the Company. There are no redemption or sinking fund provisions applicable to the Class A common stock. All outstanding shares of Class A common stock are fully paid and non-assessable.

*Allocation of Income and Loss*

Income and losses are allocated among the shareholders based upon the number of shares outstanding.

## **Class B Common Stock**

### *Voting Rights*

Holders of shares of Class B common stock are entitled to one vote for each share held of record by such holder and all matters submitted to a vote of shareholders. Accordingly, the Continuing LCFH Limited Partners, as holders of Class B common stock, collectively have a number of votes in Ladder Capital Corp that is equal to the aggregate number of LP Units that they hold. Holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our shareholders for their vote or approval, except as otherwise required by applicable law.

### *No Dividend or Liquidation Rights*

Holders of Class B common stock do not have any right to receive dividends or to receive a distribution upon a liquidation or winding up of Ladder Capital Corp.

### *Exchange for Class A Common Stock*

Pursuant to the Amended and Restated LLLP Agreement, the Continuing LCFH Limited Partners may from time to time, beginning 181 days after February 11, 2014 (subject to the conditions therein), exchange an equal number of LP Units and Class B common stock for shares of Class A common stock on a one-for-one basis, subject to equitable adjustments for stock splits, stock dividends and reclassifications.

In 2014, 874,374 LP Units were exchanged for 874,374 shares of Class A common stock and 874,374 shares of Class B common stock were cancelled. We received no other consideration in connection with these exchanges.

Table of Contents

**Predecessor Capital Structure**

The capital structure discussed below is reflective of LCFH's structure as it existed at February 11, 2014, immediately prior to the Reorganization Transactions. Immediately following the Reorganization Transactions, with the exception of the discussions regarding quarterly tax distributions, the provisions set forth below no longer apply.

Pursuant to LCFH's Amended and Restated LLLP Agreement, the LCFH's general partner has delegated all management powers to the Company's Board of Directors, who, pursuant to the Amended and Restated LLLP Agreement, are appointed by certain significant investors and the Chief Executive Officer ( CEO ) of the Company.

*Cash Distributions to Partners*

Distributions (other than tax distributions which are described below) will be made in the priorities described below at such times and in such amounts as determined by the Company's Board of Directors. All capitalized items used in this section but not defined shall have the respective meanings given to such capitalized terms in the Amended and Restated LLLP Agreement.

First, to the holders of Series A and Series B participating preferred units pro rata based on the capital account of each such holder's interests, until the Series A and Series B participating preferred unit holders have each received an amount equivalent to their respective capital accounts; then

Second, 20% to the common unit holders, and 80% to the holders of Series A participating preferred units, until the Series A participating preferred unit holders have each received an amount equivalent to \$124 per unit; and

Thereafter, 20% to common unit holders, and 80% to the holders of Series A and Series B participating preferred units, pro rata based on the units held by each holder.

Notwithstanding the foregoing, subject to available liquidity as determined by Company's Board of Directors, the Company intends to make quarterly tax distributions equal to a partner's Quarterly Estimated Tax Amount, which shall be computed (as more fully described in the Company's LLLP Agreement) for each partner as the product of (x) the federal taxable income (or alternative minimum taxable income, as the case may be,) allocated by the Company to such partner in respect of the partnership interests of the Company held by such partner and (y) the highest marginal blended federal, state and local income tax rate applicable to an individual residing in New York, NY, taking into account for federal income tax purposes, the deductibility of state and local taxes.

*Allocation of Income and Loss*

Income and losses are allocated among the partners in a manner to reflect as closely as possible the amount each partner would be distributed under the LLLP Agreement upon liquidation of the Operating Partnership's assets.

## Table of Contents

### Changes in Accumulated Other Comprehensive Income

|  | Unrealized gain (loss) on<br>real estate securities,<br>available for sale |
|--|--|
| <b>December 31, 2013</b>   | <b>\$ 12,133,807</b>   |
| Other comprehensive income of predecessor  | 18,605,177   |
| Amounts reclassified from accumulated other comprehensive income of predecessor(1)                             | (1,597,237)  |
| <b>February 10, 2014</b>   | <b>29,141,747</b>  |
| Less: Accumulated other comprehensive income of predecessor  | (29,141,747)   |
| <b>February 11, 2014</b>   |  |
| Other comprehensive income before reclassifications (2)  | 11,905,539   |
| Amounts reclassified from accumulated other comprehensive income(1)  | (17,262,856)   |
| <b>Net current-period other comprehensive income</b>   | <b>(5,357,317)</b>   |
| Net current-period other comprehensive income attributable to noncontrolling interest in operating partnership | (3,226,944)  |
| Net current-period other comprehensive income attributable to Class A common shareholders                      | <b>\$ (2,130,373)</b>  |

(1) Amount of change reflects change in unrealized (gains)/losses related to investments in real estate securities, net of reclassification adjustments, and is included in gain on securities on the combined consolidated statements of income.

(2) Excludes provision for income taxes of \$4,473,917 for the nine months ended September 30, 2014.

## 14. STOCK BASED COMPENSATION PLANS

### The 2008 Incentive Equity Plan

The 2008 Incentive Equity Plan of the Company, as amended in 2012, was adopted by the Board of Directors on September 22, 2008 (the 2008 Plan) and provides certain members of management, employees and directors of the Company or any other Ladder Company (as defined in the 2008 Plan) with additional incentives.

On April 20, 2010, 910,491 Class A-2 Common Units were granted to a member of management. The grants issued are subject to a forty-two (42) month vesting period, commencing on April 20, 2010. On June 4, 2012, 1,127,543 Class A-2 Common Units and 31,451.61 Series B Participating Preferred Units were granted to a new member of the management team. The grants issued are subject to a thirty-six (36) month vesting period, commencing on January 1, 2012 and vest monthly. In addition, the new member purchased 24,193.55 Series B Participating Preferred Units as well as received an option to purchase an additional 24,193.55 Series B Participating Preferred Units within one year of grant date at a price of \$124 per unit. The fair value of the units at grant date was \$130.0 per unit, and the difference is recognized as deferred compensation expense over the vesting period. The option in respect of 14,516.13 Series B Participating Preferred Units was exercised on

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

May 29, 2013 at an exercise price of \$124.0 per unit. The remaining options held were terminated on May 29, 2013. On May 20, 2013, 6,570 Series B Participating Preferred Units were granted to a new employee. The grant issued is subject to a thirty-six (36) month vesting period, commencing on February 1, 2013 and vests monthly. On June 3, 2013, 2,531 Series B Participating Preferred Units were granted to a new employee. The grant issued is subject to a thirty-six (36) month vesting period, commencing on February 1, 2013 and vests monthly. In accordance with a provision under the grant agreements, certain Series B Participating Preferred unitholders have elected to return a portion of their Series B Participating Preferred Units at each vesting, to reimburse the Company for payroll taxes paid on behalf of the unitholders.

The Company has estimated the fair value of such units granted based, in part, on the price to book value ratios of comparable companies, which is approved by the Board of Directors. Other key inputs are based on management's prior experience, current market conditions and projected conditions of the commercial real estate industry. All units issued under the 2008 Plan are amortized over the units' vesting periods and charged against income and were converted to LP Units of LCFH in connection with the IPO. Post-IPO incentive-based compensation is governed by the 2014 Omnibus Incentive Plan discussed below.

Table of Contents

**2014 Omnibus Incentive Plan**

In connection with the IPO Transactions, the 2014 Ladder Capital Corp Incentive Equity Plan, (the "2014 Omnibus Incentive Plan"), was adopted by the Board of Directors on February 11, 2014, and provides certain members of management, employees and directors of the Company or any other Ladder Company (as defined in the 2008 Plan) with additional incentives including grants of stock options, stock appreciation rights, restricted stock, other stock-based awards and other cash-based awards.

*2014 Restricted Stock Awards in Connection with the IPO Transactions*

In connection with the IPO Transactions, restricted stock awards were granted to members of management and certain employees (the "Grantees") with an aggregate value of \$27,489,109 which represents 1,619,865 shares of restricted Class A common stock. Fifty percent of each restricted stock award granted in connection with the offering is subject to time-based vesting criteria, and the remaining fifty percent of each restricted stock award is subject to specified performance-based vesting criteria. The time-vesting restricted stock granted to Brian Harris will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to his continued employment on the applicable vesting dates. Twenty-five percent of the time-vesting restricted stock granted to the other Grantees will vest in full on the eighteen-month anniversary of the date of grant and the remaining seventy-five percent will vest in full on the three-year anniversary of the date of grant, subject to continued employment on the applicable vesting date. The performance-vesting restricted stock will vest in three equal installments on December 31 of each of 2014, 2015 and 2016 if the Company achieves a return on equity, based on core earnings divided by the Company's average book value of equity, equal to or greater than 8% for such year (the "Performance Target"). If the Company misses the Performance Target during either the first or second calendar year but meets the Performance Target for a subsequent year during the three-year performance period and the Company's return on equity for such subsequent year and any years for which it missed its Performance Target equals or exceeds the compounded return on equity of 8%, based on core earnings divided by the Company's average book value of equity, the performance-vesting restricted stock which failed to vest because the Company previously missed its Performance Target will vest on the last day of such subsequent year. If the term "core earnings" is no longer used in the Company's SEC filings and approved by the compensation committee, then the Performance Target will be calculated using such other pre-tax performance measurement defined in the Company's SEC filings, as determined by the compensation committee.

The Company has elected to recognize the compensation expense related to the time-based vesting criteria for the entire award on a straight-line basis over the requisite service period. We feel that this aligns the compensation expense with the obligation of the Company. As such, the compensation expense related to the upfront grants to directors, officers and certain employees in connection with the IPO shall be recognized as follows:

1. Compensation expense for restricted stock subject to time-based vesting criteria granted to Brian Harris will be expensed 1/3 each year, for three years, on an annual basis following such grant
2. Compensation expense for restricted stock subject to time-based vesting criteria granted to directors will be expensed 1/3 each year, for three years on an annual basis following such grant
3. Compensation expense for restricted stock subject to time-based vesting criteria granted to officers other than Mr. Harris, and to certain employees will be expensed 1/3 each year, for three years on an annual basis following such grant.



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

Accruals of compensation cost for an award with a performance condition shall be based on the probable outcome of that performance condition. Therefore, compensation cost shall be accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

Upon termination of a Grantee's employment of service due to death or disability, and, in the case of Mr. Harris, by the Company without cause or by Mr. Harris for good reason (each, as defined in the 2014 Omnibus Incentive Plan), the Grantee's time-vesting restricted stock will accelerate and vest in full, and the Grantee's unvested performance-vesting restricted stock will remain outstanding for the performance period and will vest to the extent the Company meets the Performance Target, including via the catch up provision described above. Upon a change in control (as defined in the 2014 Omnibus Incentive Plan) all restricted stock will become fully vested, if (1) the Grantee continues to be employed through the closing of the change in control or (2) after the signing of definitive documentation related to the change in control but prior to its closing, Grantee's employment is terminated without cause or due to death or disability or Grantee resigns for good reason. The compensation committee retains the right, in its sole discretion, to provide for the accelerated vesting (in whole or in part) of the restricted stock awards granted in connection with the IPO Transactions.

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

## Table of Contents

In connection with the IPO Transactions, Alan Fishman and each of Joel C. Peterson and Douglas Durst, who were appointed to the Board of Directors in connection with such transactions, received an initial restricted stock award with a grant date fair value of approximately \$1 million, \$75,000 and \$75,000, respectively, which represents 67,648 shares of restricted Class A common stock. The grants will vest in three equal installments on each of the first three anniversaries of the date of such grants, and each will receive an annual restricted stock award with a grant date fair value of \$50,000, which will vest in full on the one-year anniversary of the date of grant, with both such awards subject to continued service on the Board of Directors. Messrs. Peterson and Durst will also receive a \$75,000 annual cash payment for their service on the Board of Directors. Additionally, certain directors may receive \$15,000 annually for service as a chairperson of the audit committee or compensation committee and \$10,000 for service as a chairperson of the nominating and corporate governance committee, with all or a portion of such fee payable to an applicable director in cash or restricted stock (with a grant date fair value equal to such amount payable) at the election of such director.

The Company recognized equity-based compensation expense of \$3,751,365 and \$10,303,817 for the three and nine months ended September 30, 2014, respectively. The Company recognized equity-based compensation expense of \$624,711 and \$2,194,673 for the three and nine months ended September 30, 2013, respectively.

A summary of the grants is presented below:

|   | Three Months Ended September 30,<br>2014 |                                   | 2013               |                                   | Nine Months ended September 30,<br>2014 |                                   | 2013               |                                   |
|---|--|-----------------------------------|--------------------|-----------------------------------|---|-----------------------------------|--------------------|-----------------------------------|
|   | Number of<br>Units                       | Weighted<br>Average<br>Fair Value | Number of<br>Units | Weighted<br>Average<br>Fair Value | Number of<br>Units                      | Weighted<br>Average<br>Fair Value | Number of<br>Units | Weighted<br>Average<br>Fair Value |
| Grants - Series B<br>Participating Preferred<br>Units     |  |                                   | (1,054)            | \$ (158,100)                      |   |                                   | 8,047              | \$ 1,207,050                      |
| <b>Grants - Class A<br/>Common Stock<br/>(restricted)</b> |  |                                   |                    |                                   | 1,687,513                               | 28,637,096                        |                    |                                   |
| <b>Amortization to<br/>compensation expense</b>           |  |                                   |                    |                                   |   |                                   |                    |                                   |
| Predecessor<br>compensation expense                       |  |                                   |                    | (624,711)                         |   | (290,171)                         |                    | (2,194,673)                       |
| LP Units  |  | (477,593)                         |                    |                                   |   | (1,470,282)                       |                    |                                   |
| Class A Common<br>Stock (restricted)                      |  | (3,273,772)                       |                    |                                   |   | (8,543,364)                       |                    |                                   |
| <b>Total amortization to<br/>compensation expense</b>     |  | \$ (3,751,365)                    |                    | \$ (624,711)                      |   | \$ (10,303,817)                   |                    | \$ (2,194,673)                    |

The table below presents the number of unvested shares at September 30, 2014 and changes during 2014 of the (i) Class A Common stock of Ladder Capital Corp granted under the 2014 Omnibus Incentive Plan and (ii) Class A-2 Common Units and, Series B Participating Preferred Units of LCFH granted under the 2008 Plan, which were subsequently converted to LP Units of LCFH in connection with the IPO.

|                                       | Class A Common<br>Shares | Class A Common<br>Units | Series B<br>Participating<br>Preferred Units | LP Units |
|---------------------------------------|--------------------------|-------------------------|--|----------|
| <b>Outstanding at January 1, 2014</b> |                          | <b>365,407</b>          | <b>14,276</b>                                |          |
| Granted                               |                          | 1,687,513               |  |          |

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

|  |                  |          |                |
|--|------------------|----------|----------------|
| Vested                                   | (32,365)         | (1,158)  | (2,361,133)    |
| Converted (1)                            | (333,042)        | (13,118) | 3,186,066      |
| <b>Outstanding at September 30, 2014</b> | <b>1,687,513</b> |          | <b>824,933</b> |

---

(1) Converted to LP Units of LCFH on February 11, 2014 in connection with IPO. LCFH LP Unitholders also received an equal number of Class B Common shares of the Company in connection with the conversion. Refer to Note 1- Organization and Operations for further discussion of IPO and the Reorganization Transactions.

At September 30, 2014, there was \$20,451,363 of total unrecognized compensation cost related to certain share-based compensation awards that is expected to be recognized over a period of up to 29.0 months, with a weighted-average remaining vesting period of 27.8 months.

### Phantom Equity Investment Plan

LCFH entered into a Phantom Equity Investment Plan effective as of June 30, 2011 (the Plan ). The Plan is an annual deferred compensation plan pursuant to which certain mandatory contributions are made to the Plan depending upon the participant s

Table of Contents

specific level of compensation and to which participants may also make elective contributions. Generally, if a participant's total compensation is in excess of a certain threshold, a portion of a participant's performance-based annual bonus is required to be deferred into the Plan. Otherwise, amounts may be deferred into the Plan at the election of the participant, so long as such elections are timely made in accordance with the terms and procedures of the Plan.

In the event that a participant elects to (or is required to) defer a portion of their compensation pursuant to the Plan, such amount is not paid to the participant and is instead credited to such participant's notional account. Prior to the IPO, such amounts would have been invested, on a phantom basis, in the Series B Participating Preferred Units of LCFH until such amounts would have eventually been paid to the participant pursuant to the Plan. Following the IPO, as described below, such amounts are invested on a phantom basis in Class A common stock of Ladder Capital Corp. Mandatory contributions are subject to one-third vesting over a three year period on a straight-line basis following the applicable Plan Year in which the related compensation was earned. Elective contributions are immediately vested upon contribution. Unvested amounts are generally forfeited upon the participant's resignation or termination for cause. The phantom units are liability-based awards and are, therefore, not participating securities.

The date that the amounts deferred into the Plan are paid to a participant depends upon whether such deferral was a mandatory deferral or an elective deferral. Elective deferrals are paid upon the earlier of (1) a change in control (as defined in the Plan), (2) the end of the participant's employment, or (3) December 31, 2017. The vested amounts of the mandatory contributions are paid upon the earlier of (1) a change in control and (2) the earlier of (x) December 31, 2017 or (y) the date of payment of the annual bonus payments following December 31 of the third calendar year following the applicable plan year to which the underlying deferred annual bonus relates. Payment will be in cash in an amount equal to the then fair market value of such units.

In February 2014, Company employees contributed \$6,427,127 to the Plan. Compensation expense is liability-based and 100% expensed upon contribution. The employees received phantom units of Series B Participating Preferred Units of LCFH at the fair market value of the units. In connection with the IPO Transactions, the notional interest in LCFH's Series B Participating Preferred Units converted into a notional interest in Class A common stock of Ladder Capital Corp, based on the \$17.00 issuance price of its Class A common stock. As of September 30, 2014, there have been \$11,811,189 total contributions (net of forfeitures and payouts related to employee terminations) made to the Plan resulting in 81,742 phantom units outstanding, of which 37,237 are unvested.

On July 3, 2014 the Board of Directors froze the Plan, effective as of such date, so that there will be no future participants in the Plan, nor additional amounts contributed to any accounts outstanding under the Plan. Amounts previously outstanding under the Plan will be paid in accordance with their original payment terms, including limiting payment to the dates and events specified above. In connection with freezing the Plan, the Board of Directors also updated the definition of fair market value for purposes of measuring the value of its Class A Common Stock, to provide that, generally, such value would be the closing price of such stock on the principal national securities exchange on which it is then traded.

**Ladder Capital Corp Deferred Compensation Plan**

On July 3, 2014, the Company adopted a new, nonqualified deferred compensation plan (the "2014 Deferred Compensation Plan"). Pursuant to the 2014 Deferred Compensation Plan, participants may elect, or in some cases may be required, to defer all or a portion of their annual cash performance-based bonuses into the 2014 Deferred Compensation Plan. Generally, if a participant's total compensation is in excess of a certain threshold, a portion of a participant's performance-based annual bonus is required to be deferred into the 2014 Deferred Compensation Plan. Otherwise, a portion of the participant's annual bonus may be deferred into the 2014 Deferred Compensation Plan at the election of the

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

participant, so long as such elections are timely made in accordance with the terms and procedures of the 2014 Deferred Compensation Plan. The phantom units do not share in the earnings of the Company and are therefore not participating securities.

In the event that a participant elects to (or is required to) defer a portion of their compensation pursuant to the 2014 Deferred Compensation Plan, such amount is not paid to the participant and is instead credited to such participant's notional account under the 2014 Deferred Compensation Plan. Such amounts are then invested on a phantom basis in Class A common stock of the Company. Elective contributions are immediately vested upon contribution. Mandatory contributions are subject to one-third vesting over a three-year period on a straight-line basis following the applicable year in which the related compensation was earned. Unvested amounts are generally forfeited upon the participant's resignation or termination, however, if a participant's employment with the Company is terminated by the Company other than for Cause and such termination is within six (6) months following a Change in Control (as each such term is defined in the 2014 Deferred Compensation Plan), then the participant will fully vest in their unvested account balances.

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

### Table of Contents

Furthermore, the unvested account balances will fully vest in the event of the participant's death, disability, or in the event of certain hostile takeovers of the Board of Directors of the Company. In the event that a participant's employment is terminated by the Company other than for Cause, the participant will vest in the portion of the participant's account that would have vested had the participant remained employed through the end of the year in which such termination occurs, subject to the participant timely executing a general release of claims in favor of the Company, and all other account balances will be forfeited. Vested shares are forfeited only in the event of a participant's termination for cause.

Amounts deferred into the 2014 Deferred Compensation Plan are paid upon the earlier to occur of (1) a change in control (as defined in the Plan), (2) within sixty (60) days following the the end of the participant's employment with the Company, or (3) the date of payment of the annual bonus payments following December 31 of the third calendar year following the applicable year to which the underlying deferred annual compensation relates. Payment is made in cash. The amount of the final cash payment may be more or less than the amount initially deferred into the 2014 Deferred Compensation Plan, depending upon the change in the value of the Class A common stock of the Company during such period.

### **Bonus Payments**

On February 12, 2014, the Board of Directors of Ladder Capital Corp approved 2013 bonus payments to employees, including officers, totaling \$43,719,000. The bonuses were paid to employees in full on February 18, 2014. During the three and nine months ended September 30, 2014, the Company accrued and recorded compensation expense of \$11,800,000 and \$42,414,286 respectively, related to 2014 bonuses. During the three and nine months ended September 30, 2013, the Company accrued and recorded compensation expense of \$10,300,000 and \$35,256,314, respectively, related to 2013 bonuses.

## **15. INCOME TAXES**

Prior to February 11, 2014, the Company had not been subject to U.S. federal income taxes as the predecessor entity is a Limited Liability limited partnership ( LLLP ), but had been subject to the New York City Unincorporated Business Tax ( NYC UBT ). As a result of the IPO, a portion of the Company's income is subject to U.S. federal, state and local income taxes and taxed at the prevailing corporate tax rates.

Components of the provision for income taxes consist of the following:

|                            | <b>Three Months<br/>Ended September<br/>30, 2014</b> | <b>Nine Months Ended<br/>September 30, 2014</b> |
|----------------------------|--|---|
| Current expense            |  |   |
| Federal                    | \$ 7,199,532   | \$ 23,019,307                                   |
| State and local            | 2,006,376  | 6,769,180                                       |
| Total current expense      | 9,205,908  | 29,788,487                                      |
| Deferred expense/(benefit) |  |   |
| Federal                    | 923,679  | (4,951,495)                                     |
| State and local            | 205,266  | (1,014,298)                                     |

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

|   |           |                   |           |                   |
|---|-----------|-------------------|-----------|-------------------|
| Total deferred expense/(benefit)        |           | 1,128,945         |           | (5,965,793)       |
| <b>Provision for income tax expense</b> | <b>\$</b> | <b>10,334,853</b> | <b>\$</b> | <b>23,822,694</b> |

Corporate taxes payable as of September 30, 2014 were \$7,432,703. There were no corporate taxes payable as of December 31, 2013. NYC UBT taxes payable at September 30, 2014 and December 31, 2013 were \$71,430 and \$482,324, respectively.

A reconciliation between the U.S. federal statutory income tax rate and the effective tax rate for the period ended September 30, 2014 is as follows:

|   | <b>Three Months<br/>Ended September<br/>30, 2014</b> | <b>Nine Months Ended<br/>September 30, 2014</b> |
|---|--|---|
| US statutory tax rate                                 | 35.00%   | 35.00%  |
| Increase due to state and local taxes                 | 3.66%  | 3.71%   |
| Benefit of partnership income not subject to taxation | -16.97%  | -16.97%   |
| <b>Effective income tax rate</b>                      | <b>21.69%</b>  | <b>21.74%</b>                                   |

Table of Contents

As of September 30, 2014, the Company's net deferred tax assets were \$6,836,999 and included in other assets in the Company's combined consolidated balance sheets. The Company believes it is more likely than not that the net deferred tax assets will be realized in the foreseeable future. Realization of the net deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change. The components of the Company's deferred tax assets and liabilities are as follows:

|  | September 30, 2014  |
|--|---------------------|
| <b>Deferred Tax Assets</b>                   |                     |
| Depreciation                                 | \$ 2,655,427        |
| Equity based compensation                    | 2,454,088           |
| Unrealized gains and losses                  | 738,306             |
| Acquisition costs                            | 288,080             |
| Section 197 intangibles                      | 701,098             |
| <b>Total Deferred Tax Assets</b>             | <b>\$ 6,836,999</b> |
| <b>Deferred Tax Liabilities</b>              |                     |
| Unrealized gains and losses                  |                     |
| <b>Total Deferred Tax Liabilities</b>        | <b>\$</b>           |
| <b>Net Deferred Tax Assets/(Liabilities)</b> | <b>\$ 6,836,999</b> |

Our tax returns are subject to audit by taxing authorities. With a few minor exceptions, as of September 30, 2014 the tax years 2010, 2011 and 2012 remain open to examination by the major taxing jurisdictions in which the Company is subject to taxes. U.S. federal and state taxing authorities are currently examining income tax returns of various subsidiaries of the Company for tax years 2010 through 2012. The Company believes that the audits will result in no material changes, however, these audits can often take a long time to complete and settle and there can be no assurances as to the possible outcomes.

Under U.S. GAAP, a tax benefit related to an income tax position may be recognized when it is more likely than not that the position will be sustained upon examination by the tax authorities based on the technical merits of the position. The Company determined that no liability for unrecognized tax benefits for uncertain income tax positions was required to be recorded as of September 30, 2014. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record a significant liability for unrecognized tax benefits within the next twelve months.

#### **Payments Pursuant to the Tax Receivable Agreement**

Upon consummation of the IPO, the Company entered into a TRA with the Continuing LCFH Limited Partners. Under the TRA the Company generally is required to pay to those Continuing LCFH Limited Partners that exchange their interests in LCFH and Class B shares of the Company for Class A shares of the Company, 85% of the applicable cash savings, if any, in U.S. federal, state and local income tax that the Company realizes (or is deemed to realize in certain circumstances) as a result of (i) the increase in tax basis in its proportionate share of LCFH's assets that is attributable to the Company as a result of the exchanges and (ii) payments under the TRA, including any tax benefits related to imputed interest deemed to be paid by the Company as a result of such agreement. The Company expects to make future payments under the TRA when the tax benefits are realized. We expect to benefit from the remaining 15% of cash savings in income tax that we realize. For purposes of the TRA, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that we would have been required to pay had there been no increase to the tax basis of the assets of LCFH as a result of the exchanges and had we not entered into the TRA.



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

Payments to a Continuing LCFH Limited Partner under the TRA are triggered by each exchange and are payable annually commencing following the Company's filing of its income tax return for the year of such exchange. The timing of the payments may be subject to certain contingencies, including the Company having sufficient taxable income to utilize all of the tax benefits defined in the TRA.

As of September 30, 2014, the Company recorded a liability of \$672,235, included in amount payable pursuant to TRA in the combined consolidated balance sheets for Continuing LCFH Limited Partners. The amount and timing of any payments may vary based on a number of factors, including the absence of any material change in the relevant tax law, the Company

Table of Contents

continuing to earn sufficient taxable income to realize all tax benefits, and assuming no additional exchanges that are subject to the TRA, and, depending upon the outcome of these factors, the Company may be obligated to make substantial payments pursuant to the TRA. The actual payment amounts may differ from these estimated amounts, as the liability will reflect changes in prevailing tax rates, the actual benefit it realized on the tax return, and any additional exchanges.

The Company is not obligated to make any payments under the TRA within the next 12 month period. The first payment is projected to be made in December 2015. To determine the current amount of the payments due, the Company estimated the amount of taxable income that the Company has generated since consummation of the initial public offering. Next, the Company estimated the amount of the specified TRA deductions for the respective period, which was used as a basis for determining the amount of tax reduction that generates a TRA obligation. In turn, the amount of specified TRA deductions for the respective period was used to calculate the estimated payments due under the TRA that the Company expects to pay in the next 12 months. These calculations are performed pursuant to the terms of the TRA.

**16. RELATED PARTY TRANSACTIONS**

The Company entered into a loan referral agreement with Meridian Capital Group LLC ( Meridian ), which is an affiliate of a member of the Company's Board of Directors and an investor in the Company. The agreement provided for the payment of referral fees for loans originated pursuant to a formula based on the Company's net profit on a referred loan, as defined in the agreement, payable annually in arrears. While the arrangement gave rise to a potential conflict of interest, full disclosure was given to the borrower who, in each case, waived the conflict in writing. This agreement was cancellable by the Company based on the occurrence of certain events, or by Meridian for nonpayment of amounts due under the agreement. The Company terminated the loan referral agreement on April 2, 2014, as a result of the IPO on February 11, 2014.

The Company incurred no fees during the three and nine months ended September 30, 2014, respectively, for loans originated in accordance with this agreement. The Company incurred \$150,000 and \$450,000 in fees for the three and nine months ended September 30, 2013, respectively, for loans originated in accordance with this agreement. As of September 30, 2014, \$425,000 was payable to Meridian pursuant to this agreement. These fees are reflected in fee expense in the accompanying combined consolidated statements of income.

**17. COMMITMENTS**

*Leases*

The Company entered into an operating lease for its previous primary office space, which commenced on January 5, 2009 and expires on May 30, 2015. There is an option to renew the lease for an additional five years at an increased monthly rental. Subsequent to entering into this leasing arrangement, the office space has been subleased to a third party. Income received on the subleased office space is recorded in other income on the combined consolidated statements of income. In 2011, the Company entered into a new lease for its primary office space which commenced on October 1, 2011 and expires on January 31, 2022 with no extension option. In 2012, the Company entered into one new lease for secondary office space. The lease commenced on May 15, 2012 and expires on May 14, 2015 with no extension option. This lease was amended on October 2, 2014, extending the expiration date from May 14, 2015 to May 14, 2018.

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

The following is a schedule of future minimum rental payments required under the above operating leases:

| <b>Year ended December 31,</b> | <b>Amount</b>       |
|--------------------------------|---------------------|
| 2014 (last 3 months)           | \$ 445,429          |
| 2015                           | 1,381,992           |
| 2016                           | 1,125,069           |
| 2017                           | 1,180,400           |
| 2018                           | 1,180,400           |
| Thereafter                     | 3,639,567           |
| <b>Total</b>                   | <b>\$ 8,952,857</b> |

Table of Contents

***GN Construction Loan Securities***

The Company committed to purchase GN construction loan securities over a period of nine to fifteen months. As of September 30, 2014, the Company's commitment to purchase these securities at fixed prices ranging from \$102.0 to \$104.4 was \$60,048,030, of which \$44,948,399 was funded, with \$15,099,631 remaining to be funded. As of December 31, 2013, the Company's commitment to purchase these securities at fixed prices ranging from 102.0 to 107.3 was \$150,271,380, of which \$112,780,499 was funded, with \$37,490,881 remaining to be funded. The fair value of those commitments at September 30, 2014 and December 31, 2013 was (\$195,176) and (\$176,736), respectively, as determined by market activity and third-party market quotes and as adjusted for estimated liquidity discounts. The fair value of these commitments is included in GN construction securities on the combined consolidated balance sheets.

***Unfunded Loan Commitments***

As of September 30, 2014, the Company's off-balance sheet arrangements consisted of \$153,629,366 of unfunded commitments of mortgage loan receivables held for investment to provide additional first mortgage loan financing, at rates to be determined at the time of funding. As of December 31, 2013, the Company's off-balance sheet arrangements consisted of \$71,514,519 of unfunded commitments of mortgage loan receivables held for investment, at rates to be determined at the time of funding, which was comprised of \$65,314,519 to provide additional first mortgage loan financing and \$6,200,000 to provide additional mezzanine loan financing. Such commitments are subject to our borrowers' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in. These commitments are not reflected on the Combined Consolidated Balance Sheets.

**18. SEGMENT REPORTING**

The Company has determined that it has three reportable segments based on how management reviews and manages its business. These reportable segments include Loans, Securities, and Real Estate. The Loans segment includes mortgage loan receivables held for investment (balance sheet loans) and mortgage loan receivables held for sale (conduit loans). The Securities segment is composed of all of the Company's activities related to commercial real estate securities, which include investments in CMBS and U.S. Agency Securities. The Real Estate segment includes selected net leased and other real estate assets. Corporate/Other includes the Company's investments in joint ventures, other asset management activities and operating expenses.

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

## Table of Contents

The Company evaluates performance based on the following financial measures for each segment (\$ in thousands):

|   | Loans        | Securities   | Real Estate | Corporate/Other(1) | Company Total |
|---|--------------|--------------|-------------|--------------------|---------------|
| <b>Three months ended September 30, 2014</b>                  |              |              |             |                    |               |
| Interest income   | \$ 30,348    | \$ 18,190    | \$          | \$ (79)            | \$ 48,459     |
| Interest expense  | (2,748)      | (1,546)      | (4,663)     | (10,971)           | (19,928)      |
| Net interest income (expense)                                 | 27,600       | 16,644       | (4,663)     | (11,050)           | 28,531        |
| Provision for loan losses                                     | (150)        |              |             |                    | (150)         |
| Net interest income (expense) after provision for loan losses | 27,450       | 16,644       | (4,663)     | (11,050)           | 28,381        |
| Operating lease income  |              |              | 12,810      |                    | 12,810        |
| Tenant recoveries   |              |              | 2,252       |                    | 2,252         |
| Sale of loans, net  | 20,414       |              |             |                    | 20,414        |
| Gain on securities  |              | 14,074       |             |                    | 14,074        |
| Sale of real estate, net                                      | 340          |              | 8,132       |                    | 8,472         |
| Fee income  | 999          | (96)         | 92          | 1,720              | 2,715         |
| Net result from derivative transactions                       | 2,137        | (1,012)      |             |                    | 1,125         |
| Earnings from investment in unconsolidated joint ventures     |              |              | 225         | 101                | 326           |
| Unrealized gain (loss) on Agency interest-only securities     |              | (1,282)      |             |                    | (1,282)       |
| Gain on assignment of mortgage loan financing                 |              |              | 431         |                    | 431           |
| Total other income  | 23,890       | 11,684       | 23,942      | 1,821              | 61,337        |
| Salaries and employee benefits                                | (4,300)      |              |             | (15,530)           | (19,830)      |
| Operating expenses  |              |              |             | (6,190)            | (6,190)       |
| Real estate operating expenses                                |              |              | (7,150)     |                    | (7,150)       |
| Fee expense   | (312)        | (14)         | (1,758)     | (124)              | (2,208)       |
| Depreciation and amortization                                 |              |              | (6,692)     | (137)              | (6,829)       |
| Total costs and expenses                                      | (4,612)      | (14)         | (15,600)    | (21,981)           | (42,207)      |
| Tax expense   |              |              |             | (10,335)           | (10,335)      |
| Segment profit (loss)   | \$ 46,728    | \$ 28,314    | \$ 3,679    | \$ (41,545)        | \$ 37,176     |
| <b>Total assets as of September 30, 2014</b>                  |              |              |             |                    |               |
|   | \$ 1,529,780 | \$ 2,176,615 | \$ 652,587  | \$ 314,811         | \$ 4,673,793  |
| <b>Three months ended September 30, 2013</b>                  |              |              |             |                    |               |
| Interest income   | \$ 17,473    | \$ 12,146    | \$          | \$ 14              | \$ 29,633     |
| Interest expense  | 78           | (772)        | (2,026)     | (9,834)            | (12,554)      |
| Net interest income (expense)                                 | 17,551       | 11,374       | (2,026)     | (9,820)            | 17,079        |
| Provision for loan losses                                     | (150)        |              |             |                    | (150)         |
| Net interest income (expense) after provision for loan losses | 17,401       | 11,374       | (2,026)     | (9,820)            | 16,929        |
| Operating lease income  |              |              | 10,235      |                    | 10,235        |
| Tenant recoveries   |              |              | 975         |                    | 975           |
| Sale of loans, net  | 22,225       |              |             |                    | 22,225        |
| Gain on securities  |              | (1,394)      |             |                    | (1,394)       |

Edgar Filing: Ladder Capital Corp - Form 10-Q

|   |                   |                     |                   |                   |                     |
|---|-------------------|---------------------|-------------------|-------------------|---------------------|
| Sale of real estate, net                                  |                   |                     | 3,524             |                   | 3,524               |
| Fee income  | 488               |                     | 90                | 1,144             | 1,722               |
| Net result from derivative transactions                   | (1,409)           | (4,905)             |                   |                   | (6,314)             |
| Earnings from investment in unconsolidated joint ventures |                   |                     |                   | 1,363             | 1,363               |
| Unrealized gain (loss) on Agency interest-only securities |                   | 3,189               |                   |                   | 3,189               |
| Total other income  | 21,304            | (3,110)             | 14,824            | 2,507             | 35,525              |
| Salaries and employee benefits                            | (5,950)           |                     |                   | (8,394)           | (14,344)            |
| Operating expenses  | 37                |                     | (7)               | (5,900)           | (5,870)             |
| Real estate operating expenses                            |                   |                     | (4,418)           |                   | (4,418)             |
| Fee expense   | (314)             | 12                  | (14)              | (245)             | (561)               |
| Depreciation and amortization                             |                   |                     | (5,274)           | (136)             | (5,410)             |
| Total costs and expenses                                  | (6,227)           | 12                  | (9,713)           | (14,675)          | (30,603)            |
| Tax expense   |                   |                     |                   | (664)             | (664)               |
| Segment profit (loss)                                     | \$ 32,478         | \$ 8,276            | \$ 3,085          | \$ (22,652)       | \$ 21,187           |
| <b>Total assets as of September 30, 2013</b>              | <b>\$ 462,641</b> | <b>\$ 1,316,976</b> | <b>\$ 510,147</b> | <b>\$ 216,404</b> | <b>\$ 2,506,168</b> |

Edgar Filing: Ladder Capital Corp - Form 10-Q

Table of Contents

|   | Loans        | Securities   | Real Estate | Corporate/Other(1) | Company Total |
|---|--------------|--------------|-------------|--------------------|---------------|
| <b>Nine months ended September 30, 2014</b>                   |              |              |             |                    |               |
| Interest income   | \$ 78,389    | \$ 52,058    | \$          | \$ (53)            | \$ 130,394    |
| Interest expense  | (8,532)      | (4,349)      | (11,777)    | (26,863)           | (51,521)      |
| Net interest income (expense)                                 | 69,857       | 47,709       | (11,777)    | (26,916)           | 78,873        |
| Provision for loan losses                                     | (450)        |              |             |                    | (450)         |
| Net interest income (expense) after provision for loan losses | 69,407       | 47,709       | (11,777)    | (26,916)           | 78,423        |
| Operating lease income  |              |              | 38,827      |                    | 38,827        |
| Tenant recoveries   |              |              | 6,474       |                    | 6,474         |
| Sale of loans, net  | 107,135      |              |             |                    | 107,135       |
| Gain on securities  |              | 21,259       |             |                    | 21,259        |
| Sale of real estate, net                                      | 1,122        |              | 23,103      |                    | 24,225        |
| Fee income  | 2,352        |              | 92          | 4,772              | 7,216         |
| Net result from derivative transactions                       | (17,731)     | (32,704)     |             |                    | (50,435)      |
| Earnings from investment in unconsolidated joint ventures     |              |              | 675         | 987                | 1,662         |
| Unrealized gain (loss) on Agency interest-only securities     |              | 466          |             |                    | 466           |
| Gain on assignment of mortgage loan financing                 |              |              | 431         |                    | 431           |
| Total other income  | 92,878       | (10,979)     | 69,602      | 5,759              | 157,260       |
| Salaries and employee benefits                                | (18,800)     |              |             | (47,516)           | (66,316)      |
| Operating expenses  |              |              |             | (12,895)           | (12,895)      |
| Real estate operating expenses                                |              |              | (22,131)    |                    | (22,131)      |
| Fee expense   | (1,034)      | (53)         | (1,799)     | (537)              | (3,423)       |
| Depreciation and amortization                                 |              |              | (20,863)    | (411)              | (21,274)      |
| Total costs and expenses                                      | (19,834)     | (53)         | (44,793)    | (61,359)           | (126,039)     |
| Tax expense   |              |              |             | (23,823)           | (23,823)      |
| Segment profit (loss)   | \$ 142,451   | \$ 36,677    | \$ 13,032   | \$ (106,339)       | \$ 85,820     |
| <b>Total assets as of September 30, 2014</b>                  |              |              |             |                    |               |
|   | \$ 1,529,780 | \$ 2,176,615 | \$ 652,587  | \$ 314,811         | \$ 4,673,793  |
| <b>Nine months ended September 30, 2013</b>                   |              |              |             |                    |               |
| Interest income   | \$ 50,262    | \$ 40,757    | \$          | \$ 43              | \$ 91,062     |
| Interest expense  | (3,015)      | (2,818)      | (6,026)     | (23,844)           | (35,703)      |
| Net interest income (expense)                                 | 47,247       | 37,939       | (6,026)     | (23,801)           | 55,359        |
| Provision for loan losses                                     | (450)        |              |             |                    | (450)         |
| Net interest income (expense) after provision for loan losses | 46,797       | 37,939       | (6,026)     | (23,801)           | 54,909        |
| Operating lease income  |              |              | 25,152      |                    | 25,152        |
| Tenant recoveries   |              |              | 1,448       |                    | 1,448         |
| Sale of loans, net  | 140,906      |              |             | 140                | 141,046       |
| Gain on securities  |              | 4,482        |             |                    | 4,482         |
| Sale of real estate, net                                      |              |              | 10,887      |                    | 10,887        |
| Fee income  | 1,813        | 8            | 304         | 3,201              | 5,326         |
| Net result from derivative transactions                       | 12,704       | 3,931        |             |                    | 16,635        |
| Earnings from investment in unconsolidated joint ventures     |              |              |             | 2,352              | 2,352         |

Edgar Filing: Ladder Capital Corp - Form 10-Q

|   |                   |                     |                   |                   |                     |
|---|-------------------|---------------------|-------------------|-------------------|---------------------|
| Unrealized gain (loss) on Agency interest-only securities |                   | (1,850)             |                   |                   | (1,850)             |
| Total other income  | 155,423           | 6,571               | 37,791            | 5,693             | 205,478             |
| Salaries and employee benefits                            | (22,250)          |                     |                   | (25,687)          | (47,937)            |
| Operating expenses  | 140               |                     | (7)               | (11,470)          | (11,337)            |
| Real estate operating expenses                            |                   |                     | (11,309)          |                   | (11,309)            |
| Fee expense   | (1,876)           | (345)               | (3,071)           | (463)             | (5,755)             |
| Depreciation and amortization                             |                   |                     | (11,199)          | (410)             | (11,609)            |
| Total costs and expenses                                  | (23,986)          | (345)               | (25,586)          | (38,030)          | (87,947)            |
| Tax expense   |                   |                     |                   | (3,451)           | (3,451)             |
| Segment profit (loss)                                     | \$ 178,234        | \$ 44,165           | \$ 6,179          | \$ (59,589)       | \$ 168,989          |
| <b>Total assets as of September 30, 2013</b>              | <b>\$ 462,641</b> | <b>\$ 1,316,976</b> | <b>\$ 510,147</b> | <b>\$ 216,404</b> | <b>\$ 2,506,168</b> |

(1) Corporate/Other represents all corporate level and unallocated items including any intercompany eliminations necessary to reconcile to combined consolidated Company totals. This caption also includes the Company's investment in unconsolidated joint ventures and strategic investments that are not related to the other reportable segments above, including the Company's investment in FHLB stock of \$59.7 million as of September 30, 2014.



Table of Contents

**19. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the issuance date of the financial statements and determined that the following disclosure is necessary:

***Committed Loan Repurchase Facilities***

On October 30, 2014, the Company amended the terms of its master repurchase agreement with a major U.S. bank to finance loans it originates to increase financing capacity on its facility from \$300.0 million to \$450.0 million and to provide a temporary increase to finance one of its assets for total capacity of \$650.0 million.

***Credit and Security Agreement***

On October 31, 2014, the Company entered into a credit and security agreement with a major banking institution to finance one of its assets in the amount of \$46.8 million and an interest rate of LIBOR plus 185 basis points.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with the combined consolidated financial statements and the related notes of Ladder Capital Corp included within this Quarterly Report and the Annual Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See*

*Cautionary Statement Regarding Forward-Looking Statements within this Quarterly Report and Risk Factors within the Annual Report, for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements as a result of various factors, including but not limited to, those in Risk Factors set forth in the Annual Report.*

References to Ladder, the Company, Successor and we, our and us refer subsequent to the IPO and related transactions described below and Ladder Capital Corp, a Delaware corporation incorporated in 2013, and its combined consolidated subsidiaries. These references (other than Successor) in periods prior to the IPO and related transactions are to Ladder Capital Finance Holdings LLLP and subsidiaries (LCFH or Predecessor).

Ladder Capital Corp, a Delaware corporation was incorporated on May 21, 2013 as a holding company for the purpose of facilitating an initial public offering (IPO) of common equity. On February 5, 2014, a registration statement relating to shares of Class A common stock of Ladder Capital Corp was declared effective and the price of such shares was set at \$17.00 per share. The IPO closed on February 11, 2014.

As a result of the IPO and certain other recapitalization transactions, Ladder Capital Corp became the sole general partner of and has a controlling interest in LCFH. Ladder Capital Corp's only business is to act as the sole general partner of LCFH, and, as such, Ladder Capital Corp operates and controls all of the business and affairs of LCFH and consolidates the financial results of LCFH into Ladder Capital Corp's combined consolidated financial statements effective as of February 11, 2014.

Within the following historical results of operations, the nine months ended September 30, 2014 consists of LCFH's operations for the period January 1, 2014 to February 10, 2014 and the Company's operations for the period February 11, 2014 to September 30, 2014. The three and nine months ended September 30, 2013 consists of LCFH's operations. Results since inception consist of LCFH's operations from October 2008 to February 10, 2014 and Ladder Capital Corp's operations from February 11, 2014 to September 30, 2014.

**Overview**

We are a leading commercial real estate finance company with a proprietary loan origination platform and an established national footprint. As a non-bank operating company, we believe that we are well-positioned to benefit from the opportunities arising from the diminished supply of debt capital and the substantial demand for new financings in the commercial real estate sector. We believe that our comprehensive, fully-integrated in-house infrastructure, access to a diverse array of committed financing sources and highly experienced management team of industry veterans will allow us to continue to prudently grow our business as we endeavor to capitalize on profitable opportunities in various market conditions.

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

We conduct our business through three major business lines: commercial mortgage lending, investments in securities secured by first mortgage loans, and investments in selected net leased and other real estate assets. Historically, we have been able to generate attractive risk-adjusted returns by flexibly allocating capital among these well-established, complementary business lines. We believe that we have a competitive advantage through our ability to offer a wide range of products, providing complete solutions across the capital structure to our borrowers. We apply a comprehensive underwriting approach to every loan and investment that we make, rooted in management's deep understanding of fundamental real estate values and proven expertise in these three complementary business lines through multiple economic and credit cycles.

Our primary business strategy is originating conduit loans, which are first mortgage loans on stabilized, income producing commercial real estate properties that are available for sale in commercial mortgage-backed securities ( CMBS ) securitizations. From our inception in October 2008 through September 30, 2014, we have originated \$7.9 billion of conduit loans, \$7.5 billion of which have been sold into 24 CMBS securitizations, making us, by volume, the second largest non-bank contributor of loans to CMBS securitizations in the United States in such period. The securitization of conduit loans has been a consistently profitable business for us and enables us to reinvest our equity capital into new loan originations or allocate it to other investments. In addition to conduit loans, we originated \$2.3 billion of balance sheet loans held for investment from inception through September 30, 2014. During this timeframe, we have also acquired \$7.0 billion of investment grade-rated securities secured by first mortgage loans on commercial real estate and \$913.4 million of selected net leased and other real estate assets. Although our securities investments and real estate assets remain available for opportunistic sales, these balance sheet business lines provide for a stable base of net interest and rental income and are complementary to our conduit lending activities.

Table of Contents

We are led by a disciplined and highly aligned management team, the majority of which has worked together for more than a decade. As of September 30, 2014, our management team and directors held interests in our Company comprising 13.0% of our total equity. On average, our management team members have 26 years of experience in the industry. Our management team includes Brian Harris, Chief Executive Officer; Michael Mazzei, President; Greta Guggenheim, Chief Investment Officer; Pamela McCormack, Chief Strategy Officer and General Counsel; Marc Fox, Chief Financial Officer; Thomas Harney, Head of Merchant Banking & Capital Markets; and Robert Perelman, Head of Asset Management.

As of September 30, 2014, we had \$4.7 billion in total assets and \$1.5 billion of total equity capital. As of that date, our assets included \$1.5 billion of loans, \$2.2 billion of securities, and \$652.6 million of real estate.

Our primary sources of revenue include net interest income on our investments, which comprised 31.8% and 33.5% of our total net interest income after provision for loan losses and total other income ( net revenues ) for the three and nine months ended September 30, 2014, respectively, and income from sales of loans, net, which represents the income we earn from regular sales and securitizations of certain commercial mortgage loans, and which comprised 22.8% and 45.5% of our net revenues for the three and nine months ended September 30, 2014, respectively. In addition, net interest income on our investments, comprised 76.7% and 91.9% of our net income for the three and nine months ended September 30, 2014, respectively, and income from sales of loans, net, comprised 54.9% and 124.8% of our net income for the three and nine months ended September 30, 2014, respectively. See Reconciliation of non-GAAP Financial Measures for a definition of net revenues and a reconciliation to total net interest income after provision for loan losses and total other income. We also generate net rental revenues from certain of our real estate and fee income from our loan originations and the management of our institutional bridge loan partnership.

Ladder was founded in October 2008. As of September 30, 2014, we are capitalized by public investors, our management team and a group of leading global institutional investors, including affiliates of Alberta Investment Management Corp., GI Partners, Ontario Municipal Employees Retirement System and TowerBrook Capital Partners. We have built our operating business to include 68 full-time industry professionals by hiring experienced personnel known to us in the commercial mortgage industry. Doing so has allowed us to maintain consistency in our culture and operations and to focus on strong credit practices and disciplined growth.

We have a diversified and flexible financing strategy supporting our business operations, including significant committed term financing from leading financial institutions. As of September 30, 2014, we had \$3.1 billion of debt financing outstanding. This financing was comprised of \$1.3 billion of financing from the FHLB, \$238.9 million committed secured term repurchase agreement financing, \$398.3 million of third-party, non-recourse mortgage debt, \$522.8 million of other securities financing, \$325.0 million of our 2017 Notes and \$300.0 million of our 2021 Notes. In addition, as of September 30, 2014, we had over \$1.6 billion of committed, undrawn funding capacity available, consisting of \$50.0 million of availability under our \$50.0 million secured credit facility, \$75.0 million of availability under our \$75.0 million Revolving Credit Facility, \$251.4 million of undrawn committed FHLB financing, and \$1.2 billion of other undrawn committed financings. As of September 30, 2014, our debt- to-equity ratio was 2.1:1.0, as we employ leverage prudently to maximize financial flexibility.

**Our businesses**

We invest primarily in loans, securities and other interests in U.S. commercial real estate, with a focus on senior secured assets. Our mix of business segments is designed to provide us with the flexibility to opportunistically allocate capital in order to generate attractive risk-adjusted returns under varying market conditions. The following table summarizes the value of our investment portfolio as reported in our combined consolidated financial statements as of the dates indicated below:



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

## Table of Contents

|   | As of September<br>30, 2014 | As of December<br>31, 2013 |
|---|-----------------------------|----------------------------|
|   | (\$ in thousands)           |                            |
| <b>Loans</b>  |                             |                            |
| Conduit first mortgage loans                              | \$ 206,501                  | \$ 440,490                 |
| Balance sheet first mortgage loans                        | 1,179,941                   | 411,655                    |
| Other commercial real estate-related loans                | 143,338                     | 127,423                    |
| Total loans   | 1,529,780                   | 979,568                    |
| <b>Securities</b>   |                             |                            |
| CMBS investments  | 2,035,079                   | 1,422,995                  |
| U.S. Agency Securities investments                        | 141,536                     | 234,251                    |
| Total securities  | 2,176,615                   | 1,657,246                  |
| <b>Real Estate</b>  |                             |                            |
| Real estate, net  | 652,587                     | 624,219                    |
| Total real estate   | 652,587                     | 624,219                    |
| Total investments   | 4,358,982                   | 3,261,033                  |
| Cash, cash equivalents and cash collateral held by broker | 142,358                     | 107,263                    |
| Other assets  | 172,453                     | 120,767                    |
| <b>Total assets</b>                                       | \$ 4,673,793                | \$ 3,489,063               |

We invest in the following types of assets:

## Loans

*Conduit First Mortgage Loans.* We originate conduit loans, which are first mortgage loans that are secured by cash-flowing commercial real estate and are available for sale to securitizations. These first mortgage loans are typically structured with fixed interest rates and generally have five- to ten-year terms. Our loans are directly originated by an internal team that has longstanding and strong relationships with borrowers and mortgage brokers throughout the United States. We follow a rigorous investment process, which begins with an initial due diligence review; continues through a comprehensive legal and underwriting process incorporating multiple internal and external checks and balances; and culminates in approval or disapproval of each prospective investment by our Investment Committee. Conduit first mortgage loans in excess of \$50.0 million also require approval of our Board of Directors Risk and Underwriting Committee.

Although our primary intent is to sell our conduit first mortgage loans to CMBS trusts, we generally seek to maintain the flexibility to keep them on our balance sheet, offer them for sale to CMBS trusts as part of a securitization process or otherwise sell them as whole loans to third-party institutional investors. From our inception in 2008 through September 30, 2014, we have originated and have funded \$7.9 billion of conduit first mortgage loans, and securitized \$7.5 billion of such mortgage loans in 24 separate transactions, including two securitizations in 2010, three securitizations in 2011, six securitizations in 2012, six securitizations in 2013 and seven securitizations in 2014. We generally securitize our loans together with certain financial institutions, which to date have included affiliates of Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, RBS Securities Inc., UBS Securities LLC and Wells Fargo Securities, LLC, and we have also completed two single-asset securitizations. During the nine months ended September 30, 2014 and September 30, 2013, conduit first mortgage loans remained on our balance sheet for a weighted average of 43 and 68 days prior to securitization, respectively. As of September 30, 2014, we held 12 first mortgage loans that were substantially available for contribution into a securitization with an aggregate book value of \$206.5 million. Based on the loan balances and the as-is third-party Financial Institutions Reform, Recovery and Enforcement Act of 1989 ( FIRREA ) appraised values at origination, the weighted average loan- to-value ratio of this portfolio was 65.4% at September 30, 2014.

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

*Balance Sheet First Mortgage Loans.* We also originate and invest in balance sheet first mortgage loans secured by commercial real estate properties that are undergoing transition, including lease-up, sell-out, and renovation or repositioning. These mortgage loans are structured to fit the needs and business plans of the property owners, and generally have LIBOR based floating rates and terms (including extension options) ranging from one to five years. Balance sheet first mortgage loans are originated, underwritten, approved and funded using the same comprehensive legal and underwriting approach, process and personnel used to originate our conduit first mortgage loans. Balance sheet first mortgage loans in excess of \$20.0 million also require the approval of our Board of Directors Risk and Underwriting Committee.

Table of Contents

We generally seek to hold our balance sheet first mortgage loans for investment or offer them for sale to our institutional bridge loan partnership. These investments have been typically repaid at or prior to maturity (including by being refinanced by us into a new conduit first mortgage loan upon property stabilization) or sold to our institutional bridge loan partnership. As of September 30, 2014, we held a portfolio of 42 balance sheet first mortgage loans with an aggregate book value of \$1.2 billion. Based on the loan balances and the as-is third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of this portfolio was 68.3% at September 30, 2014.

*Other commercial real estate-related loans.* We selectively invest in note purchase financings, subordinated debt, mezzanine debt and other structured finance products related to commercial real estate which are generally held for investment. As of September 30, 2014, we held a portfolio of 27 other commercial real estate-related loans with an aggregate book value of \$143.3 million. Based on the loan balance and the as-is third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of the portfolio was 75.1% at September 30, 2014.

The following charts set forth our total outstanding conduit first mortgage loans, balance sheet first mortgage loans and other commercial real estate-related loans as of September 30, 2014 and a breakdown of our loan portfolio by loan size and geographic location and asset type of the underlying real estate.

Loan Type

Loan Size



Table of Contents

**Geographic Location**

**Asset Type**

**Securities**

*CMBS Investments.* We invest in CMBS secured by first mortgage loans on commercial real estate and own predominantly AAA-rated securities. These investments provide a stable and attractive base of net interest income and help us manage our liquidity. We have significant in-house expertise in the evaluation and trading of CMBS, due in part to our experience in originating and underwriting mortgage loans that comprise assets within CMBS trusts, as well as our experience in structuring CMBS transactions. AAA-rated CMBS investments in excess of \$50 million and all other securities positions in excess of \$26.0 million require the approval of our Board of Directors Risk and Underwriting Committee. As of September 30, 2014, the estimated fair value of our portfolio of CMBS investments totaled \$2.0 billion in 159 CUSIPs (\$12.8 million average investment per CUSIP). As of that date, 98.5% of our CMBS investments were rated investment grade by Standard & Poor's Ratings Group (Standard & Poor's), Moody's Investors Service, Inc. (Moody's) or Fitch Ratings Inc. (Fitch), consisting of 78.8% AAA/Aaa-rated securities and 19.7% of other investment grade-rated securities, including 14.1% rated AA/Aa, 1.9% rated A/A and 3.7% rated BBB/Baa. In the future, we may invest in CMBS securities or other securities that are unrated. As of September 30, 2014, our CMBS investments had a weighted average duration of 3.7 years. The commercial real estate collateral underlying our CMBS investment portfolio is located throughout the United States. As of September 30, 2014, by property count and market value, respectively, 40.9% and 64.3% of the collateral underlying our CMBS investment portfolio was distributed throughout the top 25 metropolitan statistical areas (MSAs) in the United States, with 4.4% and 30.2% of the collateral located in the New York-Newark-Edison MSA, and the concentrations in each of the remaining top 24 MSAs ranging from 0.5% to 3.2% by property count and 0.2% to 6.1% by market value.

*U.S. Agency Securities Investments.* Our U.S. Agency Securities portfolio consists of securities for which the principal and interest payments are guaranteed by a U.S. government agency, such as the Government National Mortgage Association (Ginnie Mae), or by a government-sponsored enterprise (a GSE), such as the Federal National Mortgage Association (Fannie Mae) or Federal Home Loan Mortgage Corporation (Freddie Mac). In addition, these securities are secured by first mortgage loans on commercial real estate. As of September 30, 2014, the estimated fair value of our portfolio of U.S. Agency Securities was \$141.5 million in 52 CUSIPs (\$2.7 million average investment per CUSIP), with a weighted average duration of 5.4 years. The commercial real estate collateral underlying our U.S. Agency Securities portfolio is located throughout the United States. As of September 30, 2014, by market value 54.2% and 31.5% of the collateral underlying our U.S. Agency Securities, excluding the collateral underlying our Agency interest-only securities, was located in California and New York, respectively, with no other state having a concentration greater than 10.0%. By property count, New York represented 40.4%, California represented 29.8% and Georgia represented 10.6% of such collateral, with no other state's concentration greater than 10.0%. While the specific geographic concentration of our Agency interest-only securities portfolio as of September 30, 2014 is not obtainable, risk relating to any such possible concentration is mitigated by the interest payments of these securities being guaranteed by a U.S. government agency or a GSE.

**Real Estate**

*Commercial real estate properties.* As of September 30, 2014, we owned 32 single tenant properties with an aggregate book value of \$269.4 million. These properties are leased on a net basis where the tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance. Sixteen of our properties are leased to a national pharmacy chain, and the remaining properties are leased to a national discount retailer, a regional sporting goods

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

### Table of Contents

store, and a regional membership warehouse club. As of September 30, 2014, our net leased properties comprised a total of 1.8 million square feet and had a 100% occupancy rate, an average age since construction of 7.8 years and a weighted average remaining lease term of 17.4 years.

As of September 30, 2014, we owned four office building properties with an aggregate book value of \$251.0 million. We owned a 13-story office building in Southfield, MI with a book value of \$13.6 million through a joint venture with an operating partner, a portfolio of 20 office buildings in Richmond, VA with a book value of \$127.5 million through a separate joint venture with an operating partner, a 26-story office building in Minneapolis, MN with a book value of \$47.6 million through a separate joint venture, and a portfolio of four office buildings in St. Paul, MN with a book value of \$62.3 million through a separate joint venture.

The following chart sets forth a breakdown of our real estate portfolio by geographic location as of September 30, 2014:

*Residential real estate.* As of September 30, 2014, we owned 237 residential condominium units at Veer Towers in Las Vegas, NV with a book value of \$61.5million through a joint venture with an operating partner. As of September 30, 2014, the condominium units were 56% rented and occupied. During the three and nine months ended September 30, 2014, the Company recorded \$0.7 million and \$2.4 million, respectively, of rental income from the condominium units. We sold 21 and 96 condominium units during the three and nine months ended September 30, 2014, respectively, generating aggregate gains on sale of \$4.1 million and \$16.2 million, and we intend to sell the remaining units over time.

As of September 30, 2014, we owned 290 residential condominium units at Terrazas River Park Village in Miami, FL with a book value of \$70.6 million. As of September 30, 2014, the condominium units were 79% rented and occupied. During the three and nine months ended September 30, 2014, the Company recorded \$1.3 million and \$4.0 million, respectively, of rental income from the condominium units. We sold 18 and 34 condominium units during the three and nine months ended September 30, 2014, respectively, generating aggregate gains on sale of \$1.1 million and \$2.0 million, respectively and we intend to sell the remaining units over time.

### **Other Investments**

*Institutional bridge loan partnership.* In 2011, we established an institutional partnership ( LCRIP I ) with a Canadian sovereign pension fund to invest in first mortgage bridge loans that meet predefined criteria. Our partner owns 90% of the limited partnership interest and we own the remaining 10% on a pari passu basis as well as act as general partner. We retain discretion over which loans to present to LCRIP I and our partner retains the discretion to accept or reject individual loans. As the general partner, we have engaged our advisory entity to manage the assets of LCRIP I and earn management fees and incentive fees from LCRIP I. In addition, we are entitled to retain origination fees of up to 1% on loans that we sell to LCRIP I and on a case-by-case basis as approved by our partner, may retain certain exit fees. As of September 30, 2014, LCRIP I owned \$40.9 million of first mortgage bridge loan assets that were financed by \$5.4 million of term debt. Debt of LCRIP I is nonrecourse to the limited and general partners, except for customary nonrecourse carve-outs for certain actions and environmental liability. As of September 30, 2014, the book value of our investment in LCRIP I was \$3.8 million.

*Unconsolidated joint venture.* In connection with the origination of a loan in April 2012, we received a 25% equity kicker with the right to convert upon a capital event. On March 22, 2013, the loan was refinanced by us, and we converted our equity kicker interest into a 25% limited liability company membership interest in Grace Lake JV, LLC ( Grace Lake LLC ). As of September 30, 2014, Grace Lake LLC owned an office building campus with a carrying value of \$69.8 million that is financed by \$76.2 million of long-term debt. Debt of Grace Lake LLC is nonrecourse to the limited liability company members, except for customary nonrecourse carve-outs for certain actions and environmental liability. As of September 30, 2014, the book value of our investment in Grace Lake LLC was \$2.1 million.

Table of Contents

*Other asset management activities.* As of September 30, 2014, we also managed a separate CMBS investment account for a private investor with total assets of \$1.2 million. As of October 2012, we are no longer purchasing any new investments for this account. However, we will continue to manage the existing investments until their full repayment or other disposition.

**Our Financing Strategies**

Our financing strategies are critical to the success and growth of our business. We manage our financing to complement our asset composition and to diversify our exposure across multiple capital markets and counterparties.

We fund our investments in commercial real estate loans and securities through multiple sources, including the \$611.6 million of gross cash proceeds we raised in our initial equity private placement beginning in October 2008, the \$257.4 million of gross cash proceeds we raised in our follow-on equity private placement in the third quarter of 2011, proceeds from the issuance of \$325.0 million of unsecured notes in 2012, the \$238.5 million of net proceeds from the issuance of Class A common stock in 2014, proceeds from the issuance of \$300.0 million of unsecured notes in 2014, current and future earnings and cash flow from operations, existing debt facilities, and other borrowing programs in which we participate.

We finance our portfolio of commercial real estate loans using committed term facilities provided by multiple financial institutions, with total commitments of \$1.2 billion at September 30, 2014, a \$50.0 million credit agreement, and through our FHLB membership. As of September 30, 2014, there was \$238.9 million outstanding under the term facilities and no debt outstanding under our credit agreement. We finance our securities portfolio, including CMBS and U.S. Agency Securities, through our FHLB membership, a \$300.0 million committed term master repurchase agreement from a leading domestic financial institution and uncommitted master repurchase agreements with numerous counterparties. As of September 30, 2014, we had total outstanding balances of \$522.8 million under all securities master repurchase agreements. We finance our real estate investments with nonrecourse first mortgage loans. As of September 30, 2014, we had outstanding balances of \$398.3 million on these nonrecourse mortgage loans. In addition to the amounts outstanding on our other facilities, we had \$1.3 billion of borrowings from the FHLB outstanding at September 30, 2014. We also had a \$75.0 million revolving credit facility, with no borrowings outstanding as of September 30, 2014 and had \$625.0 million of Notes issued and outstanding as of September 30, 2014. See Note 8 to our combined consolidated financial statements for the three and nine months ended September 30, 2014 included elsewhere in this Quarterly Report for more information about our financing arrangements.

We enter into interest rate and credit spread derivative contracts to mitigate our exposure to changes in interest rates and credit spreads. We generally seek to hedge the interest rate risk on the financing of assets that have a duration longer than five years, including newly-originated conduit first mortgage loans, securities in our CMBS portfolio if long enough in duration, and most of our U.S. Agency Securities portfolio. We monitor our asset profile and our hedge positions to manage our interest rate and credit spread exposures, and we seek to match fund our assets according to the liquidity characteristics and expected holding periods of our assets.

We seek to maintain a debt-to-equity ratio of 3.0:1.0 or below. We expect this ratio to fluctuate during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of conduit loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. As of September 30, 2014, our debt-to-equity ratio was 2.1:1.0. We believe that our predominantly senior secured assets and our moderate leverage provide financial flexibility to be able to capitalize on attractive market opportunities as they arise.

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

From time to time, we may add financing counterparties that we believe will complement our business, although the agreements governing our indebtedness may limit our ability and the ability of our present and future subsidiaries to incur additional indebtedness. Our amended and restated charter and by-laws do not impose any threshold limits on our ability to use leverage.

### **Business Outlook**

We believe the commercial real estate finance market currently presents substantial opportunities for new origination, as it is characterized by stabilizing property values, a low interest rate environment, and a supply demand imbalance for financing. Over \$1.7 trillion of commercial real estate debt is scheduled to mature over the next five years according to Trepp, while at the same time traditional real estate lenders such as banks and insurance companies face significant new capital and regulatory requirements.

April 2010 marked the first new-issue, multi-borrower CMBS securitization since June 2008. For 2010 as a whole, new CMBS issuances totaled \$11.6 billion. In 2011, new CMBS issuances totaled \$32.7 billion, despite a slowdown in originations of commercial real estate mortgage loans during the second half of the year because of the uncertain economic climate created by the

Table of Contents

Euro-area crisis. In 2012, new CMBS issuance totaled \$48.4 billion, a 47.9% increase over 2011. For the year ended December 31, 2013, new CMBS issuances totaled \$86.1 billion, a 78.1% increase over the same period in 2012. In the first nine months of 2014, new CMBS issuance totaled \$68.9 billion. We believe the CMBS market will continue to play an important role in the financing of commercial real estate in the U.S.

We believe our ability to quickly and efficiently shift our focus between lending, investing in securities, and making real estate investments allows us to take advantage of attractive investment opportunities under a variety of market conditions. There are times when the conduit lending/securitization market conditions are very favorable and we shift our focus and allocate our equity toward that market. At other times, especially when markets are under stress, investment in securities is more attractive and we quickly shift focus and equity accordingly.

The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) introduced complex, comprehensive legislation into the financial industry, which will have far reaching effects on the securitization industry and its participants. There is uncertainty as to how, in the coming years, the Dodd-Frank Act may affect us or our competitors. In addition, there can be no assurance that the recovery will continue or that we will be able to find appropriate investment opportunities.

*Factors impacting operating results*

There are a number of factors that influence our operating results in a meaningful way. The most significant factors include: (1) our competition; (2) market and economic conditions; (3) loan origination volume; (4) profitability of securitizations; (5) avoidance of credit losses; (6) availability of debt and equity funding and the costs of that funding; (7) the net interest margin on our investments; and (8) effectiveness of our hedging and other risk management practices.

**Results of operations**

***Three months ended September 30, 2014 compared to the three months ended September 30, 2013***

*Overview*

Due to the IPO Transactions, net income attributable to Class A common shareholders for the three months ended September 30, 2014 is not comparable to net income attributable to predecessor unitholders for the three months ended September 30, 2013. As a result of this, we are presenting a comparison of the year-over-year change in income before taxes which is comparable. Income before taxes totaled \$47.5 million for the three months ended September 30, 2014, compared to \$21.9 million for the three months ended September 30, 2013. The \$25.6 million increase in income before taxes was primarily the result of a \$11.5 million increase in net interest income after provision for loan losses, a \$25.8 million increase in total other income. The increase in other income was driven by a \$15.5 million increase in gain (loss) on securities and a \$7.4 million increase in net results from derivative transactions. In addition there was a \$11.6 million increase in total costs and expenses for the three months ended September 30, 2014 compared to the prior period primarily related to increased salaries and employee benefits and real estate operating expenses.

Core Earnings totaled \$49.2 million for the three months ended September 30, 2014, compared to \$45.7 million for the three months ended September 30, 2013. The \$3.5 million increase in Core Earnings was also due to the increase in income before taxes discussed in the preceding paragraph. See Non-GAAP financial measures for our definition of Core Earnings and a reconciliation to income before taxes.

*Investment and financing overview*

Investment activity in the three months ended September 30, 2014 has focused on loan originations, securities investments and real estate investments. We originated and funded \$1.1 billion of commercial mortgage loans in the three months ended September 30, 2014. We acquired \$758.6 million of new securities, which was offset by \$335.2 million of sales and \$43.0 million of amortization in the portfolio, which contributed to a net increase in our securities portfolio of \$342.1 million. We also invested \$128.3 million in real estate.

Investment activity in the three months ended September 30, 2013 focused on loan originations and securities investments. We originated and funded \$413.2 million in principal value of commercial mortgage loans in the three months ended September 30, 2013. We acquired \$593.6 million of new securities, which was offset by \$34.9 million of sales and \$120.5 million of amortization in the portfolio, which contributed to a net increase in our securities portfolio of \$429.5 million.



Table of Contents

The financing climate continued to be favorable in 2014. As discussed in the Overview, in February 2014, we completed an IPO of 15.2 million shares of Class A common stock. We also entered into a new \$75.0 million revolving credit facility, secured by a pledge of the shares of certain subsidiaries. In addition, we issued \$300.0 million in 5.875% senior notes due 2021. Proceeds from the IPO, the revolving credit facility and the senior notes due 2021 are available to finance our working capital needs and for general corporate purposes. Refer to the Liquidity and Capital Resources section for a more detailed discussion on financing sources.

*Net interest income*

Interest income totaled \$48.5 million for the three months ended September 30, 2014, compared to \$29.6 million for the three months ended September 30, 2013. The \$18.9 million increase in interest income was primarily attributable to an increase in our average investment in our securities portfolio. For the three months ended September 30, 2014, securities investments averaged \$2.0 billion (58.5% of average interest bearing investments) and loan investments averaged \$1.4 billion. For the three months ended September 30, 2013, securities investments averaged \$1.2 billion (61.8% of average interest bearing investments) and loan investments averaged \$716.8 million. In addition, there was a higher volume of securities purchases, offset by lower interest spreads, in 2014 compared to 2013.

Interest expense totaled \$19.9 million for the three months ended September 30, 2014, compared to \$12.6 million for the three months ended September 30, 2013. The \$7.3 million increase in interest expense was primarily attributable to the increase in average debt balance. For the three months ended September 30, 2014, our debt balance averaged \$2.9 billion versus an average debt balance of \$1.3 billion for the three months ended September 30, 2013. The increase in average debt balance was partially offset by greater use of FHLB borrowing, which offers a lower cost of funding than repurchase agreements, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

Net interest income after provision for loan losses totaled \$28.4 million for the three months ended September 30, 2014, compared to \$16.9 million for the three months ended September 30, 2013. The \$11.5 million increase in net interest income after provision for loan losses was primarily attributable to the increase in securities investment balances during 2014 compared to the same period a year ago, partially offset by the increase in debt balance.

Cost of funds, a non-GAAP measure, totaled \$26.5 million for the three months ended September 30, 2014, compared to \$14.4 million for the three months ended September 30, 2013. The \$12.1 million increase in cost of funds was primarily attributable to the increase in average debt balance referred to above.

We present cost of funds, which is a non-GAAP measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our combined consolidated statements of income adjusted to include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our combined consolidated statements of income.

Set forth below is an unaudited reconciliation of interest expense to cost of funds (\$ in thousands):

Edgar Filing: Ladder Capital Corp - Form 10-Q

Three Months Ended September 30,  
2014 2013

|  | (\$ in thousands) |                 |           |                 |
|--|-------------------|-----------------|-----------|-----------------|
| Interest expense   | \$                | (19,928)        | \$        | (12,554)        |
| Net interest expense component of hedging activities (1) |                   | (6,537)         |           | (1,799)         |
| <b>Cost of funds</b>                                     | <b>\$</b>         | <b>(26,465)</b> | <b>\$</b> | <b>(14,352)</b> |
| Interest income  | \$                | 48,459          | \$        | 29,633          |
| Cost of funds  |                   | (26,465)        |           | (14,352)        |
| <b>Interest income, net of cost of funds</b>             | <b>\$</b>         | <b>21,994</b>   | <b>\$</b> | <b>15,281</b>   |

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

### Table of Contents

|     |  | Three Months Ended September 30, |                   |
|-----|--|----------------------------------|-------------------|
|     |  | 2014                             | 2013              |
|     |  | (\$ in thousands)                |                   |
| (1) | Net interest expense component of hedging activities | \$ (6,537)                       | \$ (1,799)        |
|     | Hedging realized result                              | (738)                            | 20,355            |
|     | Hedging unrecognized result                          | 8,400                            | (24,869)          |
|     | <b>Net result from derivative transactions</b>       | <b>\$ 1,125</b>                  | <b>\$ (6,313)</b> |

### *Interest spreads*

As of September 30, 2014, the weighted average yield on our mortgage loan receivables was 7.30%, compared to 9.55% as of September 30, 2013 as the weighted average yield on new loans originated was lower than the weighted average yield on loans that were securitized or paid off. As of September 30, 2014, the weighted average interest rate on borrowings against our mortgage loan receivables was 1.98%, compared to 0.69% as of September 30, 2013. The increase in the rate on borrowings against our mortgage loan receivables from September 30, 2013 to September 30, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and securities repurchase facilities at higher cost as of September 30, 2014 versus September 30, 2013. As of September 30, 2014, we had outstanding borrowings secured by our mortgage loan receivables equal to 28.0% of the carrying value of our mortgage loan receivables, compared to 6.2% as of September 30, 2013.

As of September 30, 2014, the weighted average yield on our real estate securities was 3.38%, compared to 4.80% as of September 30, 2013 as the weighted average yield on securities purchased was lower than the weighted average yield on securities that were sold or paid off. As of September 30, 2014, the weighted average interest rate on borrowings against our real estate securities was 0.95%, compared to 0.69% as of September 30, 2013. The increase in the rate on borrowings against our real estate securities from September 30, 2013 to September 30, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and securities repurchase facilities at higher cost as of September 30, 2014 versus September 30, 2013. As of September 30, 2014, we had outstanding borrowings secured by our real estate securities equal to 73.6% of the carrying value of our real estate securities, compared to 44.5% as of September 30, 2013.

We earn rental income under operating leases on our real estate; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2014, the weighted average interest rate on mortgage borrowings against our real estate was 4.86%, compared to 4.84% as of September 30, 2013. During the twelve month period between September 30, 2013 and September 30, 2014, the carrying value of our real estate portfolio increased from \$510.1 million to \$652.6 million. The interest rate on borrowings secured by our real estate from September 30, 2013 to September 30, 2014 was relatively flat, based on prevailing market interest rates. As of September 30, 2014, we had outstanding borrowings secured by our real estate equal to 61.0% of the carrying value of our real estate, compared to 57.1% as of September 30, 2013.

### *Provision for loan losses*

We had a \$0.2 million provision for loan losses for the three months ended September 30, 2014, compared to a \$0.2 million provision for loan losses for the three months ended September 30, 2013. We invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. Since inception, we have had no events of impairment on the loans we originated, however, to ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance

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

that will grow over time with its portfolio and the related risk as the assets are aged and approach maturity and ultimate refinancing where applicable. As a result, our provision for loan losses remained unchanged for the three months ended September 30, 2014 and the three months ended September 30, 2013.

### *Operating lease income*

Operating lease income totaled \$12.8 million for the three months ended September 30, 2014, compared to \$10.2 million for the three months ended September 30, 2013. The increase of \$2.6 million was attributable to acquisitions which increased real estate to \$652.6 million at September 30, 2014 versus \$510.1 million at September 30, 2013.

### *Income from sales of loans, net*

Income from sales of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, totaled \$20.4 million for the three months ended September 30, 2014, compared to \$22.2 million for the three months ended

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

## Table of Contents

September 30, 2013, a decrease of \$1.8 million. In the three months ended September 30, 2014, we participated in two securitization transactions, selling 39 loans with an aggregate outstanding principal balance of \$680.0 million. In the three months ended September 30, 2013, we participated in two securitization transactions, selling 66 loans with an aggregate outstanding principal balance of \$1.0 billion. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter.

Income from sales of securitized loans, net, a non-GAAP measure, represents gross proceeds received from the sale of loans into securitization trusts, less the book value of those loans at the time they were sold, less any costs, such as legal and closing costs, associated with the securitization transactions.

We present net results from loans sold into securitizations, a non-GAAP measure, as a supplemental measure of the performance of our loan securitization business. Net results from loans sold into securitizations are a key component of our results. Since our loans sold into securitizations to date are comprised of long-term fixed-rate loans, the result of hedging those exposures prior to securitization represents a substantial portion of our interest rate hedging. Therefore, we view these two components of our profitability together when assessing the performance of this business activity and find it a meaningful measure of the Company's performance as a whole. When evaluating the performance of our sale of loans into securitization business, we generally consider the income from sales of securitized loans, net, in conjunction with our income statement items that are directly related to such securitization transactions, including portions of the realized net result from derivative transactions that are specifically related to hedges on the securitized or sold loans, which we reflect as hedge gain/(loss) related to loans securitized, a non-GAAP measure, in the table below.

Below are the results from sales of loans into securitizations for the three months ended September 30, 2014 and 2013:

|   | Three Months Ended September 30, |              |
|---|----------------------------------|--------------|
|   | 2014                             | 2013         |
| Number of loans   | 39                               | 66           |
| Face amount of loans sold into securitizations (\$ in thousands)    | \$ 679,977                       | \$ 1,028,385 |
| Number of securitizations   | 2                                | 2            |
| Income from sale of securitized loans, net (\$ in thousands)(1)     | \$ 20,414                        | \$ 22,225    |
| Hedge gain/(loss) related to loans securitized (\$ in thousands)(2) | \$ 2,777                         | \$ 19,855    |
| Net results from loans sold into securitizations (\$ in thousands)  | \$ 23,191                        | \$ 42,080    |

(1) The following is a reconciliation of the non-GAAP measure of income from sale of securitized loans, net to income from sale of loans, net, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|  | Three Months Ended September 30, |           |
|--|----------------------------------|-----------|
|  | 2014                             | 2013      |
|  | (\$ in thousands)                |           |
| Income from sale of loans (non-securitized), net | \$                               | \$        |
| Income from sale of securitized loans, net       | 20,414                           | 22,225    |
| Income from sale of loans, net                   | \$ 20,414                        | \$ 22,225 |



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

### Table of Contents

(2) The following is a reconciliation of the non-GAAP measure of hedge gain/(loss) related to loans securitized to net results from derivative transactions, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|   | <b>Three Months Ended September 30,</b> |             |
|---|---|-------------|
|   | <b>2014</b>                             | <b>2013</b> |
|   | (\$ in thousands)                       |             |
| Hedge gain/(loss) related to lending and securities positions | \$ (1,652)                              | \$ (26,168) |
| Hedge gain/(loss) related to loans securitized                | 2,777                                   | 19,855      |
| Net results from derivative transactions                      | \$ 1,125                                | \$ (6,313)  |

#### *Gain (loss) on securities*

Gain (loss) on securities totaled a gain of \$14.1 million for the three months ended September 30, 2014, compared to a loss of \$1.4 million for the three months ended September 30, 2013, an increase of \$15.5 million. For the three months ended September 30, 2014, we sold \$335.2 million of securities, comprised of \$266.9 million of CMBS and \$68.3 million of U.S. Agency Securities. For the three months ended September 30, 2013, we sold \$34.9 million of securities, comprised of \$19.5 million of CMBS and \$15.4 million of U.S. Agency Securities. The increase reflects higher transaction volume and higher profit margins in 2014 as compared to 2013.

#### *Income from sales of real estate, net*

For the three months ended September 30, 2014, income from sales of commercial real estate properties totaled \$3.2 million. We sold four single-tenant retail properties resulting in a net gain on sale of \$3.2 million. For the three months ended September 30, 2013, there were no sales of commercial real estate properties.

During the three months ended September 30, 2014 income from sales of residential condominium units totaled \$5.2 million. We sold 21 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$4.1 million, and 18 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in income from sales of \$1.1 million. For the three months ended September 30, 2013 income from sales of residential real estate properties totaled \$3.5 million. During the three months ended September 30, 2013, we sold 28 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$3.5 million.

#### *Other income*

Tenant recoveries totaled \$2.3 million for the three months ended September 30, 2014, compared to \$1.0 for the three months ended September 30, 2013. The increase of \$1.3 million reflects the change in our real estate portfolio from predominantly net leased properties to a mix of net leased, office and residential real estate.

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

Fee income totaled \$2.7 million for the three months ended September 30, 2014, compared to \$1.7 million for the three months ended September 30, 2013. We generate fee income from the management of our institutional partnership and managed accounts as well as from origination fees, exit fees and other fees on the loans we originate and in which we invest.

Gain on assignment of mortgage loan financing totaled \$0.4 million for the three months ended September 30, 2014, compared to none for the three months ended September 30, 2013. During the three months ended September 30, 2014 we sold real estate with related mortgage loan financing that had an unrecognized premium as of the date of sale. This unrecognized premium is recognized as gain on assignment of mortgage loan financing on the combined consolidated statements of income.

### *Net result from derivative transactions*

Net result from derivative transactions represented a gain of \$1.1 million for the three months ended September 30, 2014, which was comprised of an unrealized gain of \$13.9 million and a realized loss of \$12.8 million, compared to a loss of \$6.3 million which was comprised of an unrealized loss of \$25.0 million offset by a realized gain of \$18.7 million, for the three months ended September 30, 2013, a positive change of \$7.4 million. The derivative positions that generated these results were a combination of interest rate swaps, caps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2014 was primarily related to a decrease in interest rates during the three months ended September 30, 2014, which generally increased the value of our fixed rate loan and securities investments, and decreased the fair value of our offsetting derivative transactions. The total net result from derivative transactions is comprised of hedging interest expense, realized losses related to hedge terminations and unrealized losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.



Table of Contents

*Earnings from investment in unconsolidated joint ventures*

In 2011, we entered into an institutional partnership ( LCRIP I ) for which we use the equity method of accounting. We act as general partner and own a 10% limited partner interest in the institutional partnership. We are 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 \$100,000,000. Our proportionate share of the net income of LCRIP I, as defined in the LCRIP I Partnership agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

In 2013, we acquired a 25% limited liability company membership interest for which we use the equity method of accounting. We receive distributions on a pari passu basis with one other financial institution's equity interest. Our proportionate share of the net income of the limited liability company, as defined in the limited liability company agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

Earnings from investment in unconsolidated joint ventures totaled \$0.3 million for the three months ended September 30, 2014, compared to \$1.4 million for the three months ended September 30, 2013. The decrease of \$1.1 million reflects the lower investment balances.

*Unrealized gain (loss) on Agency interest-only securities*

Unrealized gain (loss) on Agency interest-only securities represented a loss of \$1.3 million for the three months ended September 30, 2014, compared to a gain of \$3.2 million for the three months ended September 30, 2013. The negative change of \$4.5 million in unrealized gain (loss) on Agency interest-only securities was primarily related to a decrease in interest rates during the three months ended September 30, 2014 and an increase in interest rates during the three months ended September 30, 2013.

*Salaries and employee benefits*

Salaries and employee benefits totaled \$19.8 million for the three months ended September 30, 2014, compared to \$14.3 million for the three months ended September 30, 2013. Salaries and employee benefits are comprised primarily of salaries, bonuses, originator bonuses related to loan profitability, equity based compensation and other employee benefits. Additional compensation expense was attributable to additional headcount and a new executive compensation plan put in place at the time of the IPO in 2014 compared to 2013.

*Operating expenses*

Operating expenses totaled \$6.2 million for the three months ended September 30, 2014, compared to \$5.9 million for the three months ended September 30, 2013. Operating expenses are comprised primarily of professional fees, lease expense, and technology expenses.

*Real estate operating expenses*

Real estate operating expenses totaled \$7.1 million for the three months ended September 30, 2014, compared to \$4.4 million for the three months ended September 30, 2013. The increase of \$2.7 million in real estate operating expense was due to the change in our real estate portfolio from predominantly net leased properties to a mix of net leased, office and residential real estate.

*Fee expense*

Fee expense totaled \$2.2 million for the three months ended September 30, 2014, compared to \$0.6 million for the three months ended September 30, 2013. Fee expense is comprised primarily of real estate acquisition costs and also includes custodian fees, financing costs and servicing fees related to loans. The increase of \$1.6 million in fee expense was primarily related to the increase in the purchases of real estate from none for the three months ended September 30, 2013 to \$127.0 million for the three months ended September 30, 2014.

*Depreciation and amortization*

Depreciation and amortization totaled \$6.8 million for the three months ended September 30, 2014, compared to \$5.4 million for the three months ended September 30, 2013. The \$1.4 million increase in depreciation and amortization is attributable to acquisitions which increased real estate to \$652.6 million at September 30, 2014 versus \$510.1 million at September 30, 2013.

Table of Contents

*Income tax expense*

Income tax expense totaled \$10.3 million for the three months ended September 30, 2014, compared to \$0.7 million for the three months ended September 30, 2013. The increase of \$9.6 million is primarily attributable to the IPO and Reorganization Transactions that occurred on February 11, 2014 which subjected the Company to federal, state and local income taxes (including NYC UBT on the LLLP). Prior to the IPO and Reorganization Transactions the Company was an LLLP subject to the New York City Unincorporated Business Tax only. The share of income from the Company that is subject to federal and state income taxes will increase as Continuing LCFH Limited Partners convert their LP Units into shares of Class A common stock and as a result, the relative ownership of the LLLP by the Company increases.

*Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013*

*Overview*

Due to the IPO Transactions, net income attributable to Class A common shareholders for the nine months ended September 30, 2014 is not comparable to net income attributable to predecessor unitholders for the nine months ended September 30, 2013. As a result of this, we are presenting a comparison of the year-over-year change in income before taxes which is comparable. Income before taxes totaled \$109.6 million for the nine months ended September 30, 2014, compared to \$172.4 million for the nine months ended September 30, 2013. The \$62.8 million decrease in income before taxes was primarily the result of a \$23.5 million increase in net interest income after provision for loan losses offset by a \$48.2 million decrease in total other income. The decrease in other income was driven by a \$67.0 million decrease in net results from derivative transactions and a \$33.9 million decrease on sale of loans, net offset by increased operating lease income, tenant recoveries, gain on securities and sale of real estate, net. In addition, there was a \$38.1 million increase in total costs and expenses for the nine months ended September 30, 2014 compared to the prior period, primarily related to increased salaries and employee benefits, real estate operating expenses and depreciation and amortization.

Core Earnings totaled \$166.4 million for the nine months ended September 30, 2014, compared to \$180.3 million for the nine months ended September 30, 2013. The \$13.9 million decrease in Core Earnings was also due to the decrease in income before taxes discussed in the preceding paragraph. See Reconciliation of non-GAAP financial measures for our definition of Core Earnings and a reconciliation to income before taxes.

*Investment and financing overview*

Investment activity in the first nine months of 2014 has focused on loan originations and securities investments. We originated and funded \$3.0 billion of commercial mortgage loans in the nine months ended September 30, 2014. We acquired \$1.3 billion of new securities, which was offset by \$565.1 million of sales and \$165.8 million of amortization in the portfolio, which contributed to a net increase in our securities portfolio of \$519.4 million.

Investment activity in the first nine months of 2013 focused on loan originations and securities investments. We originated and funded \$1.8 billion in principal value of commercial mortgage loans in the nine months ended September 30, 2013. We acquired \$707.0 million of new

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

securities, which was offset by \$133.9 million of sales and \$330.6 million of amortization in the portfolio, which contributed to a net increase in our securities portfolio of \$191.4 million.

The financing climate continued to be favorable in 2014. As discussed in the Overview, in February 2014, we completed an IPO of 15.2 million shares of Class A common stock. We also entered into a new \$75.0 million revolving credit facility, secured by a pledge of the shares of certain subsidiaries. In addition, we issued \$300.0 million in 5.875% senior notes due 2021. Proceeds from the IPO, the revolving credit facility and the senior notes due 2021 are available to finance our working capital needs and for general corporate purposes. Refer to the Liquidity and Capital Resources section for a more detailed discussion on financing sources.

### *Net interest income*

Interest income totaled \$130.4 million for the nine months ended September 30, 2014, compared to \$91.1 million for the nine months ended September 30, 2013. The \$39.3 million increase in interest income was primarily attributable to an increase in our average investment in our securities portfolio. For the nine months ended September 30, 2014, securities investments averaged \$1.8 billion (57.9% of average interest bearing investments) and loan investments averaged \$1.3 billion. For the nine months ended September 30, 2013, securities investments averaged \$1.1 billion (57.8% of average interest bearing investments) and loan investments averaged \$797.3 million. In addition, there was a higher volume of securities purchases, offset by lower interest spreads, in 2014 compared to 2013.

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

### Table of Contents

Interest expense totaled \$51.5 million for the nine months ended September 30, 2014, compared to \$35.7 million for the nine months ended September 30, 2013. The \$15.8 million increase in interest expense was primarily attributable to the increase in average debt balance. For the nine months ended September 30, 2014, our debt balance averaged \$2.6 billion versus an average debt balance of \$1.3 billion for the nine months ended September 30, 2013, which was partially offset by greater use of FHLB borrowings, a lower cost of funding than repurchase agreements, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013.

Net interest income after provision for loan losses totaled \$78.4 million for the nine months ended September 30, 2014, compared to \$54.9 million for the nine months ended September 30, 2013. The \$23.5 million increase in net interest income after provision for loan losses was primarily attributable to the increase in securities investment balances during 2014 compared to the same period a year ago, partially offset by the increase in debt balance.

Cost of funds, a non-GAAP measure, totaled \$61.5 million for the nine months ended September 30, 2014, compared to \$42.4 million for the nine months ended September 30, 2013. The \$19.1 million increase in cost of funds was primarily attributable to the increase in average debt balance referred to above.

We present cost of funds, which is a non-GAAP measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our combined consolidated statements of income adjusted to include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our combined consolidated statements of income.

Set forth below is an unaudited reconciliation of interest expense to cost of funds (\$ in thousands):

|  | Nine Months Ended September 30, |                    |
|--|---------------------------------|--------------------|
|  | 2014                            | 2013               |
|  | (\$ in thousands)               |                    |
| Interest expense   | \$ (51,521)                     | \$ (35,703)        |
| Net interest expense component of hedging activities (1) | (10,014)                        | (6,664)            |
| <b>Cost of funds</b>                                     | <b>\$ (61,535)</b>              | <b>\$ (42,367)</b> |
| Interest income  | \$ 130,394                      | \$ 91,062          |
| Cost of funds  | (61,535)                        | (42,367)           |
| <b>Interest income, net of cost of funds</b>             | <b>\$ 68,859</b>                | <b>\$ 48,695</b>   |

---

|  | Nine Months Ended September 30, |                  |
|--|---------------------------------|------------------|
|  | 2014                            | 2013             |
|  | (\$ in thousands)               |                  |
| (1) Net interest expense component of hedging activities | \$ (10,014)                     | \$ (6,664)       |
| Hedging realized result                                  | (10,839)                        | 16,272           |
| Hedging unrecognized result                              | (29,582)                        | 7,027            |
| <b>Net result from derivative transactions</b>           | <b>\$ (50,435)</b>              | <b>\$ 16,635</b> |

*Interest spreads*

As of September 30, 2014, the weighted average yield on our mortgage loan receivables was 7.30%, compared to 9.55% as of September 30, 2013 as the weighted average yield on new loans originated was lower than the weighted average yield on loans that were securitized or paid off. As of September 30, 2014, the weighted average interest rate on borrowings against our mortgage loan receivables was 1.98%, compared to 0.69% as of September 30, 2013. The increase in the rate on borrowings against our mortgage loan receivables from September 30, 2013 to September 30, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and securities repurchase facilities at higher cost as of September 30, 2014 versus September 30, 2013. As of September 30, 2014, we had outstanding borrowings secured by our mortgage loan receivables equal to 28.0% of the carrying value of our mortgage loan receivables, compared to 6.2% as of September 30, 2013.

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

### Table of Contents

As of September 30, 2014, the weighted average yield on our real estate securities was 3.38%, compared to 4.80% as of September 30, 2013 as the weighted average yield on securities purchased was lower than the weighted average yield on securities that were sold or paid off. As of September 30, 2014, the weighted average interest rate on borrowings against our real estate securities was 0.95%, compared to 0.69% as of September 30, 2013. The increase in the rate on borrowings against our real estate securities from September 30, 2013 to September 30, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and securities repurchase facilities at higher cost as of September 30, 2014 versus September 30, 2013. As of September 30, 2014, we had outstanding borrowings secured by our real estate securities equal to 73.6% of the carrying value of our real estate securities, compared to 44.5% as of September 30, 2013.

We earn rental income under operating leases on our real estate; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2014, the weighted average interest rate on mortgage borrowings against our real estate was 4.86%, compared to 4.84% as of September 30, 2013. During the twelve month period between September 30, 2013 and September 30, 2014, the carrying value of our real estate portfolio increased from \$510.1 million to \$652.6 million. The interest rate on borrowings secured by our real estate from September 30, 2013 to September 30, 2014 was relatively flat, based on prevailing market interest rates. As of September 30, 2014, we had outstanding borrowings secured by our real estate equal to 61.0% of the carrying value of our real estate, compared to 57.1% as of September 30, 2013.

### *Provision for loan losses*

We had a \$0.5 million provision for loan losses for the nine months ended September 30, 2014, compared to a \$0.5 million provision for loan losses for the nine months ended September 30, 2013. We invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. Since inception, we have had no events of impairment on the loans we originated, however, to ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets are aged and approach maturity and ultimate refinancing where applicable. As a result, our provision for loan losses remained unchanged for the nine months ended September 30, 2014 and the nine months ended September 30, 2013.

### *Operating lease income*

Operating lease income totaled \$38.8 million for the nine months ended September 30, 2014, compared to \$25.2 million for the nine months ended September 30, 2013. The increase of \$13.6 million was attributable to acquisitions which increased real estate to \$652.6 million at September 30, 2014 versus \$510.1 million at September 30, 2013.

### *Income from sales of loans, net*

Income from sales of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, totaled \$107.1 million for the nine months ended September 30, 2014, compared to 141.0 million for the nine months ended September 30, 2013, a decrease of \$33.9 million. In the nine months ended September 30, 2014, we participated in seven separate securitization transactions, selling 117 loans with an aggregate outstanding principal balance of \$2.3 billion. In the nine months ended September 30, 2013, we participated in five securitization

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

transactions, selling 132 loans with an aggregate outstanding principal balance of \$2.2 billion. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter.

Income from sales of securitized loans, net, a non-GAAP measure, represents gross proceeds received from the sale of loans into securitization trusts, less the book value of those loans at the time they were sold, less any costs, such as legal and closing costs, associated with the securitization transactions.

We present net results from loans sold into securitizations, a non-GAAP measure, as a supplemental measure of the performance of our loan securitization business. Net results from loans sold into securitizations are a key component of our results. Since our loans sold into securitizations to date are comprised of long-term fixed-rate loans, the result of hedging those exposures prior to securitization represents a substantial portion of our interest rate hedging. Therefore, we view these two components of our profitability together when assessing the performance of this business activity and find it a meaningful measure of the Company's performance as a whole. When evaluating the performance of our sale of loans into securitization business, we generally consider the income from sales of securitized loans, net, in conjunction with our income statement items that are directly related to such securitization transactions, including portions of the realized net result from derivative transactions that are specifically related to hedges on the securitized or sold loans, which we reflect as hedge gain/(loss) related to loans securitized, a non-GAAP measure, in the table below.



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

## Table of Contents

Below are the results from sales of loans into securitizations for the nine months ended September 30, 2014 and 2013:

|   | Nine Months Ended September 30, |              |
|---|---------------------------------|--------------|
|   | 2014                            | 2013         |
| Number of loans   | 117                             | 132          |
| Face amount of loans sold into securitizations (\$ in thousands)    | \$ 2,338,359                    | \$ 2,182,034 |
| Number of securitizations   | 7                               | 5            |
| Income from sale of securitized loans, net (\$ in thousands)(1)     | \$ 106,935                      | \$ 139,491   |
| Hedge gain/(loss) related to loans securitized (\$ in thousands)(2) | \$ (8,535)                      | \$ 16,389    |
| Net results from loans sold into securitizations (\$ in thousands)  | \$ 98,400                       | \$ 155,880   |

(1) The following is a reconciliation of the non-GAAP measure of income from sale of securitized loans, net to income from sale of loans, net, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|  | Nine Months Ended September 30, |            |
|--|---------------------------------|------------|
|  | 2014                            | 2013       |
|  | (\$ in thousands)               |            |
| Income from sale of loans (non-securitized), net | \$ 200                          | \$ 1,555   |
| Income from sale of securitized loans, net       | 106,935                         | 139,491    |
| Income from sale of loans, net                   | \$ 107,135                      | \$ 141,046 |

(2) The following is a reconciliation of the non-GAAP measure of hedge gain/(loss) related to loans securitized to net results from derivative transactions, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|   | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
|   | (\$ in thousands)               |           |
| Hedge gain/(loss) related to lending and securities positions | \$ (41,900)                     | \$ 246    |
| Hedge gain/(loss) related to loans securitized                | (8,535)                         | 16,389    |
| Net results from derivative transactions                      | \$ (50,435)                     | \$ 16,635 |

### *Gain (loss) on securities*

Gain (loss) on securities totaled \$21.3 million for the nine months ended September 30, 2014, compared to \$4.5 million for the nine months ended September 30, 2013, an increase of \$16.8 million. For the nine months ended September 30, 2014, we sold \$565.1 million of securities, comprised of \$496.8 million of CMBS and \$68.3 million of U.S. Agency Securities. For the nine months ended September 30, 2013, we sold \$133.9 million of securities, comprised of \$62.7 million of CMBS and \$71.2 million of U.S. Agency Securities. The increase reflects higher transaction volume and higher profit margins in 2014 as compared to 2013.

*Income from sales of real estate, net*

For the nine months ended September 30, 2014, income from sales of commercial real estate properties totaled \$6.0 million. We sold five single-tenant retail properties resulting in a net gain on sale of \$4.9 million and one office building in Richmond, VA, resulting in a net gain on sale of \$1.1 million. For the nine months ended September 30, 2013, there were no sales of commercial real estate properties.

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

### Table of Contents

During the nine months ended September 30, 2014, income from sales of residential condominiums totaled \$18.2 million. We sold 96 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$16.2 million, and 34 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$2.0 million. For the nine months ended September 30, 2013, income from sales of 71 residential condominium units from Veer Towers in Las Vegas, NV, resulted in a net gain on sale of \$10.9 million.

### *Other income*

Tenant recoveries totaled \$6.5 million for the nine months ended September 30, 2014, compared to \$1.4 million for the nine months ended September 30, 2013. The increase of \$5.1 million reflects the change in our real estate portfolio from predominately net lease properties to a mix of net lease, office and residential real estate.

Fee income totaled \$7.2 million for the nine months ended September 30, 2014, compared to \$5.3 million for the nine months ended September 30, 2013. We generate fee income from the management of our institutional partnership and managed accounts as well as from origination fees, exit fees and other fees on the loans we originate and in which we invest. The \$1.9 million increase in fee income year over year was due to an increase in fee generating activity, primarily the increase in loan origination volume.

Gain on assignment of mortgage loan financing totaled \$0.4 million for the nine months ended September 30, 2014, compared to none for the nine months ended September 30, 2013. During the nine months ended September 30, 2014 we sold real estate with related mortgage loan financing that had an unrecognized premium as of the date of sale. This unrecognized premium is recognized as gain on assignment of mortgage loan financing on the combined consolidated statements of income.

### *Net result from derivative transactions*

Net result from derivative transactions represented a loss of \$50.4 million for the nine months ended September 30, 2014, which was comprised of an unrealized loss of \$2.8 million and a realized loss of \$47.6 million, compared to a gain of \$16.6 million which was comprised of an unrealized loss of \$4.7 million offset by a realized gain of \$21.3 million, for the nine months ended September 30, 2013, a negative change of \$67.0 million. The derivative positions that generated these results were a combination of interest rate swaps, caps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2014 was primarily related to a decrease in interest rates during the nine months ended September 30, 2014, which generally increased the value of our fixed rate loan and securities investments, and decreased the fair value of our offsetting derivative transactions. The total net result from derivative transactions is comprised of hedging interest expense, realized losses related to hedge terminations and unrealized losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.

### *Earnings from investment in unconsolidated joint ventures*

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

In 2011, we entered into an institutional partnership ( LCRIP I ) for which we use the equity method of accounting. We act as general partner and own a 10% limited partner interest in the institutional partnership. We are 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 \$100,000,000. Our proportionate share of the net income of LCRIP I, as defined in the LCRIP I Partnership agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

In 2013, we acquired a 25% limited liability company membership interest for which we use the equity method of accounting. We receive distributions on a pari passu basis with one other financial institution's equity interest. Our proportionate share of the net income of the limited liability company, as defined in the limited liability company agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

Earnings from investment in unconsolidated joint ventures totaled \$1.7 million for the nine months ended September 30, 2014, compared to \$2.4 million for the nine months ended September 30, 2013. The decrease of \$0.7 million reflects the lower investment balances.

### *Unrealized gain (loss) on Agency interest-only securities*

Unrealized gain (loss) on Agency interest-only securities represented a gain of \$0.5 million for the nine months ended September 30, 2014, compared to a loss of \$1.8 million for the nine months ended September 30, 2013. The positive change of \$2.3 million in unrealized gain (loss) on Agency interest-only securities was primarily related to an increase in interest rates during the nine months ended September 30, 2014 and a decline in interest rates during the nine months ended September 30, 2013.

Table of Contents

*Salaries and employee benefits*

Salaries and employee benefits totaled \$66.3 million for the nine months ended September 30, 2014, compared to \$47.9 million for the nine months ended September 30, 2013. Salaries and employee benefits are comprised primarily of salaries, bonuses, originator bonuses related to loan profitability, equity based compensation and other employee benefits. Additional compensation expense was attributable to additional headcount and a new executive compensation plan put in place at the time of the IPO in 2014 compared to 2013.

*Operating expenses*

Operating expenses totaled \$12.9 million for the nine months ended September 30, 2014, compared to \$11.3 million for the nine months ended September 30, 2013. Operating expenses are comprised primarily of professional fees, lease expense, and technology expenses.

*Real estate operating expenses*

Real estate operating expenses totaled \$22.1 million for the nine months ended September 30, 2014, compared to \$11.3 million for the nine months ended September 30, 2013. The increase of \$10.8 million in real estate operating expense was due to the change in our real estate portfolio from predominantly net leased properties to a mix of net leased, office and residential real estate.

*Fee expense*

Fee expense totaled \$3.4 million for the nine months ended September 30, 2014, compared to \$5.8 million for the nine months ended September 30, 2013. Fee expense is comprised primarily of real estate acquisition costs and also includes custodian fees, financing costs and servicing fees related to loans. The decrease of \$2.4 million in fee expense was primarily related to the decrease in the purchases of real estate from \$158.1 million for the nine months ended September 30, 2013 to \$129.0 million for the nine months ended September 30, 2014.

*Depreciation and amortization*

Depreciation and amortization totaled \$21.3 million for the nine months ended September 30, 2014, compared to \$11.6 million for the nine months ended September 30, 2013. The \$9.7 million increase in depreciation and amortization is attributable to acquisitions which increased real estate to \$652.6 million at September 30, 2014 versus \$510.1 million at September 30, 2013.

*Income tax expense*

Income tax expense totaled \$23.8 million for the nine months ended September 30, 2014, compared to \$3.5 million for the nine months ended September 30, 2013. The increase of \$20.3 million is primarily attributable to the IPO and Reorganization Transactions that occurred on February 11, 2014 which subjected the Company to federal, state and local income taxes (including NYC UBT on the LLLP). Prior to the IPO and Reorganization Transactions the Company was an LLLP subject to the New York City Unincorporated Business Tax only. The share of income from the Company that is subject to federal and state income taxes will increase as Continuing LCFH Limited Partners convert their LP Units into shares of Class A common stock and as a result, the relative ownership of the LLLP by the Company increases.

### **Liquidity and Capital Resources**

Our financing strategies are critical to the success and growth of our business. We manage our financing to complement our asset composition and to diversify our exposure across multiple capital markets and counterparties.

We require substantial amounts of capital to support our business. The management team, in consultation with our Board of Directors, establishes our overall liquidity and capital allocation strategies. A key objective of those strategies is to support the execution of our business strategy while maintaining sufficient ongoing liquidity throughout the business cycle to service our financial obligations as they become due. When making funding and capital allocation decisions, members of our senior management consider business performance; the availability of, and costs and benefits associated with, different funding sources; current and expected capital markets and general economic conditions; our balance sheet and capital structure; and our targeted liquidity profile and risks relating to our funding needs.

Table of Contents

Our primary uses of liquidity are for (1) the funding of loan and real estate-related investments, (2) the repayment of short-term and long-term borrowings and related interest, (3) the funding of our operating expenses and (4) distributions to our equity investors to satisfy their income tax obligations related to the portion of our taxable income allocated to each of them. We require short-term liquidity to fund loans that we originate and hold on our combined consolidated balance sheet pending sale, including through whole loan sale, participation, or securitization. We generally require longer-term funding to finance the loans and real estate-related investments that we hold for investment.

Our primary sources of liquidity have been (1) cash and cash equivalents, (2) cash generated from operations, (3) borrowings under various financing arrangements, (4) principal repayments on investments including mortgage loans and securities, (5) borrowings under our credit agreement, (6) borrowings under our revolving credit facility, (7) proceeds from securitizations and sales of loans, (8) proceeds from the sale of securities, (9) proceeds from the sale of real estate, (10) proceeds from the issuance of the Notes, and (11) proceeds from the issuance of equity capital.

We have historically maintained a debt-to-equity ratio of 3:1 or below. This ratio typically fluctuates during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. We generally seek to match fund our assets according to their liquidity characteristics and expected hold period. We believe that the defensive positioning of our predominantly senior secured assets and our financing strategy has allowed us to maintain financial flexibility to capitalize on an attractive range of market opportunities as they have arisen.

We and our subsidiaries may incur substantial additional debt in the future. However, we are subject to certain restrictions on our ability to incur additional debt in the indenture governing the Notes (the "Indenture") and our other debt agreements. Under the Indenture, we may not incur certain types of indebtedness unless our consolidated debt to equity ratio (as defined in the Indenture) is less than or equal to 4.00 to 1.00, although our subsidiaries are permitted to incur indebtedness where recourse is limited to the assets and/or the general credit of such subsidiary. Our borrowings under certain financing agreements and our committed loan facilities are subject to maximum consolidated leverage ratio limits (currently ranging from 2.38 to 1.00 to 4.00 to 1.00), including maximum consolidated leverage ratio limits weighted by asset composition that change based on our asset base at the time of determination, and, in the case of one provider, a minimum interest coverage ratio requirement of 1.50 to 1.00 if certain liquidity thresholds are not satisfied. These restrictions, which would permit us to incur substantial additional debt, are subject to significant qualifications and exceptions.

Our principal debt financing sources include: (1) committed secured funding provided by banks and an insurance company, (2) uncommitted secured funding sources, including asset repurchase agreements with a number of banks, (3) long term nonrecourse mortgage financing, (4) long term senior unsecured notes in the form of corporate bonds and (5) borrowings on both a short- and long-term committed basis, made by our wholly-owned subsidiary, Tuebor from the FHLB.

As of September 30, 2014, we had unrestricted cash and cash equivalents of \$87.8 million, unencumbered loans of \$798.3 million, unencumbered securities of \$265.3 million and restricted cash of \$54.5 million.

Our captive insurance company subsidiary is subject to state regulations which require that dividends may only be made with regulatory approval. The Company established a broker dealer subsidiary, Ladder Capital Securities LLC ("LCS"), which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with Financial Industry Regulatory Authority ("FINRA") and SEC regulations, which require that dividends may only be made with regulatory approval.

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

### *Cash and cash equivalents*

We held unrestricted cash and cash equivalents of \$87.8 million and \$78.7 million at September 30, 2014 and December 31, 2013, respectively.

### *Cash generated from operations*

Our operating activities were a net provider of cash of \$366.7 million during the nine months ended September 30, 2014, and were a net provider of cash of \$765.4 million for the nine months ended September 30, 2013. Cash from operations includes the origination of loans held for sale, net of the proceeds from sale of loans and gains from sales of loans.



## Table of Contents

### *Borrowings under various financing arrangements*

Our financing strategies are critical to the success and growth of our business. We manage our leverage policies to complement our asset composition and to diversify our exposure across multiple counterparties. Our borrowings under various financing arrangements as of September 30, 2014 and December 31, 2013 are set forth in the table below (\$ in thousands):

|                                   | September 30, 2014 | December 31, 2013 |
|-----------------------------------|--------------------|-------------------|
|                                   | (\$ in thousands)  |                   |
| Committed loan facilities         | \$ 238,869         | \$ 159,313        |
| Committed securities facility     |                    | 88,921            |
| Uncommitted securities facilities | 522,758            | 361,601           |
| Total repurchase agreements       | 761,627            | 609,835           |
| Mortgage loan financing           | 398,266            | 291,053           |
| Borrowings from the FHLB          | 1,291,000          | 989,000           |
| Senior unsecured notes            | 625,000            | 325,000           |
| Total                             | \$ 3,075,893       | \$ 2,214,888      |

The Company's repurchase facilities include covenants covering minimum net worth requirements (ranging from \$75.0 million to \$900.3 million), maximum reductions in net worth over stated time periods, minimum liquidity levels (typically \$30.0 million of cash or a higher standard that allows for the inclusion of liquid securities), maximum leverage ratios, which are calculated in various ways, a fixed charge coverage ratio of 1.25x, and, in the instance of one provider, an interest coverage ratio of 1.50x if certain liquidity thresholds are not satisfied. We believe we are in compliance with all covenants as of September 30, 2014 and December 31, 2013. Further, certain of our financing arrangements and loans on our real property are secured by the assets of the Company, including pledges of the equity of certain subsidiaries. From time to time, certain of these financing arrangements and loans may prohibit certain of our subsidiaries from paying dividends to the Company, from making distributions on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or other assets to the Company or other subsidiaries of the Company.

### *Committed loan facilities*

We are parties to multiple committed loan repurchase agreement facilities, as outlined in the table below, totaling \$1.2 billion of credit capacity. Assets pledged as collateral under these facilities are generally limited to whole mortgage loans collateralized by first liens on commercial real estate. Our repurchase facilities include covenants covering net worth requirements, minimum liquidity levels, and maximum debt/equity ratios. We believe we were in compliance with all covenants as of September 30, 2014.

We have the option to extend some of our existing facilities subject to a number of customary conditions. The lenders have sole discretion with respect to the inclusion of collateral in these facilities, to determine the market value of the collateral on a daily basis, and, if the estimated market value of the included collateral declines, the lenders have the right to require additional collateral or a full and/or partial repayment of the facilities (margin call), sufficient to rebalance the facilities. Typically, the facilities are established with stated guidelines regarding the maximum percentage of the collateral asset's market value that can be borrowed. We often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon at a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis.

*Committed securities facility*

We are a party to a term master repurchase agreement with a major U.S. banking institution for CMBS, as outlined in the table below, totaling \$300.0 million of credit capacity. As we do in the case of borrowings under committed loan facilities, we often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis.

*Uncommitted securities facilities*

We are party to multiple master repurchase agreements with several counterparties to finance our investments in CMBS and U.S. Agency Securities as outlined in the table below. The securities that served as collateral for these borrowings are highly liquid and marketable assets that are typically of relatively short duration. As we do in the case of other secured borrowings, we often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis.

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

## Table of Contents

Our committed and uncommitted loan and securities repurchase agreement facilities as of September 30, 2014 were as follows:

| Committed Amount | Outstanding Amount | Committed but Unfunded | Interest Rate(s) at Septemeber 30, 2014 | Maturity   | Remaining Extension Options                             | Eligible Collateral (1)                            | Carrying Amount of Collateral | Fair Value of Collateral |
|------------------|--------------------|------------------------|---|------------|---|--|-------------------------------|--------------------------|
| \$ 300,000,000   | \$ 101,857,167     | \$ 198,142,833         | 2.65%                                   | 5/18/2015  | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans        | \$ 217,431,554                | \$ 217,431,554           |
| \$ 250,000,000   | \$ 7,751,802       | \$ 242,248,198         | 3.03%                                   | 4/10/2016  | Two additional 364 day periods at Company's option      | First mortgage commercial real estate loans        | \$ 25,846,490                 | \$ 25,846,490            |
| \$ 450,000,000   | \$ 129,260,249     | \$ 320,739,751         | Between 2.80% and 3.15%                 | 5/26/2017  | Two additional twelve month periods at Company's option | First mortgage commercial real estate loans        | \$ 289,656,794                | \$ 289,656,794           |
| \$ 150,000,000   | \$                 | \$ 150,000,000         |   | 12/31/2014 | N/A   | First mortgage commercial real estate loans        | \$                            | \$                       |
| \$ 1,150,000,000 | \$ 238,869,218     | \$ 911,130,782         |   |            |   |  | \$ 532,934,838                | \$ 532,934,838           |
| \$ 300,000,000   | \$                 | \$ 300,000,000         |   | 4/30/2015  | N/A   | Investment grade commercial real estate securities | \$ 113,709,812                | \$ 113,709,812           |
| \$               | \$ 522,758,000     | \$                     | Between 0.45% and 1.65%                 | Various    | N/A   | Investment grade commercial real estate securities | \$ 612,423,782                | \$ 612,423,782           |
| \$ 1,450,000,000 | \$ 761,627,218     | \$ 1,211,130,782       |   |            |   |  | \$ 1,259,068,432              | \$ 1,259,068,432         |

Collateralized borrowings under repurchase agreement

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

The following table presents the amount of collateralized borrowings outstanding as of the end of each quarter, the average amount of collateralized borrowings outstanding during the quarter and the monthly maximum amount of collateralized borrowings outstanding during the quarter:

| Quarter Ended      | Quarter-end balance | Collateralized Borrowings Under Repurchase Agreements (1) |                                  |                     |                           |                                  | Quarter-end balance | TALF Average quarterly balance | Maximum balance of any month-end |
|--------------------|---------------------|---|----------------------------------|---------------------|---------------------------|----------------------------------|---------------------|--------------------------------|----------------------------------|
|                    |                     | Total Average quarterly balance                           | Maximum balance of any month-end | Quarter-end balance | Average quarterly balance | Maximum balance of any month-end |                     |                                |                                  |
|                    |                     |   |                                  |                     |                           |                                  |                     |                                |                                  |
|                    |                     |   |                                  |                     |                           |                                  |                     |                                |                                  |
| (\$ in thousands)  |                     |   |                                  |                     |                           |                                  |                     |                                |                                  |
| December 31, 2011  | 1,597,077           | 1,804,540   | 1,929,282                        | 1,597,077           | 1,790,487                 | 1,887,260                        |                     | 14,053                         | 42,159                           |
| March 31, 2012     | 1,551,245           | 1,634,731   | 1,692,270                        | 1,551,245           | 1,634,731                 | 1,692,270                        |                     |                                |                                  |
| June 30, 2012      | 1,645,770           | 1,608,041   | 1,645,770                        | 1,645,770           | 1,608,041                 | 1,645,770                        |                     |                                |                                  |
| September 30, 2012 | 754,263             | 1,190,263   | 1,471,712                        | 754,263             | 1,190,263                 | 1,471,712                        |                     |                                |                                  |
| December 31, 2012  | 793,917             | 776,672   | 868,754                          | 793,917             | 776,672                   | 868,754                          |                     |                                |                                  |
| March 31, 2013     | 382,161             | 428,531   | 559,516                          | 382,161             | 428,531                   | 559,516                          |                     |                                |                                  |
| June 30, 2013      | 254,978             | 236,809   | 415,182                          | 254,978             | 236,809                   | 415,182                          |                     |                                |                                  |
| September 30, 2013 | 6,151               | 112,060   | 317,646                          | 6,151               | 112,060                   | 317,646                          |                     |                                |                                  |
| December 31, 2013  | 609,835             | 307,437   | 609,835                          | 609,835             | 307,437                   | 609,835                          |                     |                                |                                  |
| March 31, 2014     | 370,970             | 549,085   | 782,147                          | 370,970             | 549,085                   | 782,147                          |                     |                                |                                  |
| June 30, 2014      | 685,693             | 1,056,118   | 1,258,258                        | 685,693             | 1,056,118                 | 1,258,258                        |                     |                                |                                  |
| September 30, 2014 | 761,627             | 831,330   | 880,904                          | 761,627             | 831,330                   | 880,904                          |                     |                                |                                  |

(1) Collateralized borrowings under repurchase agreements include all securities and loan financing under repurchase agreements.

The Company borrowed under the TALF program during the period from July 2009 through March 2010 to finance the acquisition of AAA-rated CMBS. Subsequent to March 2010, TALF borrowings declined as the underlying collateral was paid down, sold or refinanced with more attractive and efficient financing terms.

Table of Contents

In addition to the cyclical cash proceeds from origination and securitization of mortgage loans held for sale, the CMBS portfolio received over \$900.0 million of principal repayments in 2012 which reduced collateralized borrowings under repurchase agreements on the positions and provided net cash for additional reductions of collateralized borrowings under repurchase agreements.

The Company raised \$257.4 million of additional capital during 2011, of which \$86.1 million was called during the third quarter of 2011 and \$171.3 million was called in the fourth quarter of 2011. The proceeds were primarily used to reduce outstanding collateralized borrowings under repurchase agreements.

The Company commenced borrowings from the FHLB in the third quarter of 2012 and commenced borrowing under a new credit agreement in the first quarter of 2013. These additional sources of financing reduced the collateralized borrowings under repurchase agreements.

The Company raised \$238.5 million of additional capital, after expenses, through our IPO during 2014. The proceeds were primarily used to reduce outstanding collateralized borrowings under repurchase agreements.

The Company sold loans to a securitization trust on September 29, 2014 lowering our loan balance and also the need for financing on the loans sold.

*Borrowings under credit agreement*

On January 24, 2013, we entered into a \$50 million credit agreement with one of our committed financing counterparties in order to finance our securities and lending activities. As of September 30, 2014 and December 31, 2013, there were no borrowings outstanding under this facility.

*Revolving Credit Facility*

On February 11, 2014, we entered into a revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility provides for an aggregate maximum borrowing amount of \$75.0 million, including a \$25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility will be available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. The Revolving Credit Facility will have a six-year maturity, which maturity may be extended by two twelve-month periods subject to the satisfaction of customary conditions, including the absence of default. Interest on the Revolving Credit Facility is one-month LIBOR plus 3.50% per annum payable monthly in arrears.

The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries. The Revolving Credit Facility is secured by a pledge of the shares of (or other ownership or equity interests in) certain subsidiaries to the extent the pledge is not restricted under existing regulations, law or contractual obligations.

LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the incurrence of additional debt, liens, restricted payments, sales of assets and affiliate transactions under the Revolving Credit Facility. In addition, under the Revolving Credit Facility, LCFH is required to comply with financial covenants relating to minimum net worth, maximum leverage, minimum liquidity, and minimum fixed charge coverage, consistent with our other credit facilities. Our ability to borrow under the Revolving Credit Facility will be dependent on, among other things, the LCFH's compliance with the financial covenants. The Revolving Credit Facility contains customary events of default, including non-payment of principal or interest, fees or other amounts, failure to perform or observe covenants, cross-default to other indebtedness, the rendering of judgments against the Company or certain of our subsidiaries to pay certain amounts of money and certain events of bankruptcy or insolvency.

As of September 30, 2014, there were no borrowings outstanding under the Revolving Credit Facility.

#### *Mortgage loan financing*

We generally finance our real estate using long-term nonrecourse mortgage financing. During the nine months ended September 30, 2014, we executed 16 term debt agreements to finance real estate. These nonrecourse debt agreements are fixed rate financing at 4.25% to 6.75% and matures in 2018, 2020, 2021, 2022, 2023 and 2024. The carrying value of these long-term nonrecourse mortgages include net unamortized premiums and discounts, representing proceeds received upon financing greater or less than the contractual amounts due under the agreements. The premiums and discounts are being amortized over the remaining life of the respective debt instruments using the effective interest method. We recorded \$0.5 million and \$0.4 million of premium amortization, which decreased interest expense, for the nine months ended September 30, 2014 and 2013, respectively. The loans are collateralized by real estate, net of \$520.5 million and \$401.3 million as of September 30, 2014 and December 31, 2013, respectively.

Table of Contents

*FHLB financing*

On July 11, 2012, our wholly-owned subsidiary, Tuebor, became a member of the FHLB and subsequently drew its first secured funding advances from the FHLB. As of September 30, 2014, Tuebor had \$1.3 billion of borrowings outstanding (with an additional \$251.4 million of committed term financing available from the FHLB), with terms of overnight to 10 years, interest rates of 0.32% to 2.74%, and advance rates of 54% to 100% of the collateral. As of September 30, 2014, collateral for the borrowings was comprised of \$1.3 billion of CMBS and U.S. Agency Securities and \$333.9 million of first mortgage commercial real estate loans. On May 29, 2014, Tuebor's advance limit was increased to the lesser of \$1.9 billion or 33% of Ladder Capital Corp's total assets. As of December 31, 2013, Tuebor had \$989.0 million of borrowings outstanding (with an additional \$416.0 million of committed term financing available from the FHLB), with terms of overnight to 7 years, interest rates of 0.20% to 2.40%, and advance rates of 57% to 95% of the collateral. As of December 31, 2013, collateral for the borrowings was comprised of \$1.0 million of CMBS and U.S. Agency Securities and \$276.7 million of first mortgage commercial real estate loans.

On September 2, 2014, the Federal Housing Finance Agency ( FHFA ) proposed a rule that would revise the requirements for financial institutions to apply for and retain membership in one of the 12 FHLBs. This proposed rule would revise FHFA's existing FHLB membership regulation to ensure that members maintain a commitment to housing finance and that the entities meeting the revised requirements can gain access to FHLB advances and the benefits of membership. Many of the provisions of the proposed rule would not be applicable to Tuebor. The most relevant and most notable provisions of the proposed rule would:

- a. Define "insurance company" to mean a company that has as its primary business the underwriting of insurance for nonaffiliated persons. The intent of this provision is to continue to include traditional insurance companies but exclude captive insurers from membership and prevent entities not eligible for membership from gaining access to FHLB advances through a captive insurer. Membership of existing captive insurers would be "sunset" over five years from the effective date of the new rule (the "Sunset Date") with defined limits on advances.
- b. Establish a new quantitative test requiring all members to hold one percent of their assets in home mortgage loans ( HML ) and to do so on an ongoing basis. Currently, applicants for membership need only demonstrate a nominal amount of HML on their balance sheet at the time of their application, but not thereafter.

The comment period on the proposed rule will remain open for 120 days. As of September 30, 2014, there are no changes to the Tuebor's borrowing ability from the FHLB as a result of the proposed rule. If the rule is adopted as proposed, Tuebor's FHLB membership would continue in effect until the Sunset Date, with the terms of the future borrowings from the FHLB would be limited to maturity dates on or prior to the Sunset Date. Tuebor's total borrowings from the FHLB limited to 40.0% of its total assets, and Tuebor would be required to maintain at least 1.0% of its assets in the form of HML.

Tuebor is subject to state regulations which require that dividends (including dividends to the Company as its parent) may only be made with regulatory approval. However, there can be no assurance that we would obtain such approval if sought. Largely as a result of this restriction, approximately \$247.7 million of the member's capital were restricted from transfer to Tuebor's parent without prior approval of state insurance regulators at September 30, 2014.

*Senior unsecured notes*

On September 14, 2012, LCFH issued \$325.0 million of 2017 Notes. The 2017 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on September 19, 2012. The 2017 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type.

On August 1, 2014, LCFH issued \$300.0 million of 2021 Notes. The 2021 Notes require interest payments semi-annually in cash in arrears on February 1 and August 1 of each year, beginning on February 1, 2015. The 2021 Notes will mature on August 1, 2021. The 2021 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type.

LCFH issued the 2021 Notes and the 2017 Notes (collectively, the Notes ) with LCFC as co-issuers on a joint and several basis. LCFC is a 100% owned finance subsidiary of LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. Ladder Capital Corp and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. Ladder Capital Corp is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of September 30, 2014, Ladder Capital Corp has a 51.9% economic interest in LCFH and a majority voting interest and controls the management of LCFH as a result of its ability to appoint board members. Accordingly, 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. In addition, Ladder Capital Corp is subject to federal, state and



Table of Contents

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.

*Principal repayments on investments*

We receive principal amortization on our loans and securities as part of the normal course of our business. Repayment of real estate securities provided net cash of \$165.8 million for the nine months ended September 30, 2014 and \$330.6 million for the nine months ended September 30, 2013.

*Proceeds from securitizations and sales of loans*

We sell our conduit mortgage loans to securitization trusts and to other third-parties as part of our normal course of business. We also sell certain balance sheet loans to LCRIP I. Proceeds from sales of mortgage loans provided net cash of \$2.4 billion for the nine months ended September 30, 2014 and \$2.2 billion for the nine months ended September 30, 2013.

*Proceeds from the sale of securities*

We invest in CMBS and U.S. Agency Securities. Proceeds from sales of securities provided net cash of \$565.1 million for the nine months ended September 30, 2014 and \$133.9 million for the nine months ended September 30, 2013.

*Proceeds from the sale of real estate*

We own a portfolio of commercial real estate properties as well as residential condominium units. Proceeds from sales of real estate provided net cash of \$103.5 million for the nine months ended September 30, 2014.

*Proceeds from the issuance of equity*

For the nine months ended September 30, 2014, we realized net proceeds of \$238.5 million in connection with the issuance of our Class A common stock. There were no proceeds realized for the issuance of equity for the nine months ended September 30, 2013. We may issue additional equity in the future.

### Other potential sources of financing

In the future, we may also use other sources of financing to fund the acquisition of our assets, including credit facilities, warehouse facilities, repurchase facilities and other secured and unsecured forms of borrowing. These financings may be collateralized or non-collateralized, may involve one or more lenders and may accrue interest at either fixed or floating rates. We may also seek to raise further equity capital or issue debt securities in order to fund our future investments.

### Contractual obligations

Contractual obligations as of September 30, 2014 were as follows (\$ in thousands):

| Contractual Obligations as of September 30, 2014 |                     |                   |                   |                   |                     |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|
|  | Less than 1 Year    | 1-3 Years         | 3-5 Years         | More than 5 Years | Total               |
| Secured financings                               | \$ 1,207,799        | \$ 547,010        | \$ 87,330         | \$ 604,312        | \$ 2,446,451        |
| Interest payable(1)                              | 71,813              | 136,550           | 115,773           | 85,198            | 409,334             |
| Other funding obligations                        | 168,729             |                   |                   |                   | 168,729             |
| Payments pursuant to tax receivable agreement    |                     | 672               |                   |                   | 672                 |
| Operating lease obligations                      | 445                 | 2,507             | 2,361             | 3,640             | 8,953               |
| Senior unsecured notes                           |                     |                   | 325,000           | 300,000           | 625,000             |
| <b>Total</b>                                     | <b>\$ 1,448,786</b> | <b>\$ 686,739</b> | <b>\$ 530,464</b> | <b>\$ 993,150</b> | <b>\$ 3,659,139</b> |

(1) For borrowings with variable interest rates, we used the rates in effect as of September 30, 2014 to determine the future interest payment obligations.

The tables above do not include amounts due under our derivative agreements as those contracts do not have fixed and determinable payments. Our contractual obligations will be refinanced and/or repaid from earnings as well as amortization and sales of our highly liquid collateral.

Table of Contents

**Unfunded loan commitments**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our borrowers. As of September 30, 2014, our off-balance sheet arrangements consisted of \$153.6 million of unfunded commitments of mortgage loan receivables held for investment, all of which was to provide additional first mortgage loan financing. As of December 31, 2013, our off-balance sheet arrangements consisted of \$71.5 million of unfunded commitments of mortgage loan receivables held for investment, which was comprised of \$65.3 million to provide additional first mortgage loan financing and \$6.2 million to provide additional mezzanine loan financing. Such commitments are subject to our borrowers' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Combined Consolidated Balance Sheets and are not reflected on our Combined Consolidated Balance Sheets.

**Critical accounting policies**

Our critical accounting policies reflecting management's estimates and judgments are described in our Annual Report on Form 10-K and in Note 2 to the combined consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

**Recent accounting pronouncements**

In August 2014, the Federal Accounting Standards Board (FASB) issued Accounting Standards Update (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 ended March 31, 2017 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 2014-14, *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 2014-04. The Company anticipates adopting this update in the quarter ended March 31, 2015 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 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.

Table of Contents

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 probable of being 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 ended March 31, 2016 and does not expect the adoption to have a material impact on the Company's 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 adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09 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 2014-09, 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 2014-09 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 ended March 31, 2017 and is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company's consolidated financial condition or results of operations.

In April 2014, FASB issued 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* (ASU 2014-08). The objective of this update is to change the criteria for determining which disposals can be presented as discontinued operations and to modify related disclosure requirements. Under this guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update requires expanded disclosures for discontinued operations reporting and is effective for annual and interim periods beginning after December 15, 2014 with early adoption permitted for disposals that have not been reported in financial statements previously issued or available for issuance. The Company adopted this guidance during the quarter ended March 31, 2014.

In July 2013, FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the

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

financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013. This guidance became effective for the Company beginning January 1, 2014. The adoption of this standard did not have a material impact on its combined consolidated financial statements or footnote disclosures.

Table of Contents

In February 2013, FASB issued Accounting Standards Update (ASU) 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not currently include specific guidance on accounting for such obligations with joint and several liability which has resulted in diversity in practice. The ASU requires an entity to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The ASU is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the updates scope that exist within the Company's statement of financial position at the beginning of the year of adoption. This guidance became effective for the Company beginning January 1, 2014. The adoption of this standard did not have a material impact on its combined consolidated financial statements or footnote disclosures.

**Reconciliation of non-GAAP financial measures**

*Core Earnings*

We present Core Earnings, which is a non-GAAP measure, as a supplemental measure of our performance. We consider common shareholders and Continuing LCFH Limited Partners to have fundamentally equivalent interest in our pre-tax earnings. Accordingly, for purposes of computing Core Earnings we start with pre-tax earnings and adjust for other noncontrolling interest in consolidated joint ventures but we do not adjust for amounts attributable to noncontrolling interests held by Continuing LCFH Limited Partners.

We define Core Earnings as income before taxes adjusted to exclude (i) net (income) loss attributable to noncontrolling interests in our consolidated joint ventures, (ii) real estate depreciation and amortization, (iii) the impact of derivative gains and losses related to the hedging of assets on our balance sheet as of the end of the specified accounting period, (iv) unrealized gains/(losses) related to our investments in Agency interest-only securities, (v) the premium (discount) on mortgage loan financing and the related amortization of premium (discount) on mortgage loan financing recorded during the period, (vi) non-cash stock-based compensation and (vii) certain one-time items.

As discussed in Note 2 to the combined consolidated financial statements included elsewhere in this Quarterly Report, we do not designate derivatives as hedges to qualify for hedge accounting and therefore any net payments under, or fluctuations in the fair value of, our derivatives are recognized currently in our income statement. However, fluctuations in the fair value of the related assets are not included in our income statement. We consider the gain or loss on our hedging positions related to assets that we still own as of the reporting date to be open hedging positions. While recognized for GAAP purposes, we exclude the results on the hedges from Core Earnings until the related asset is sold and the hedge position is considered closed, whereupon they would then be included in Core Earnings in that period. These are reflected as Adjustments for unrecognized derivative results for purposes of computing Core Earnings for the period.

As more fully discussed in Note 2 to the combined consolidated financial statements included elsewhere in this Quarterly Report, our investments in Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings. We believe that excluding these specifically identified gains and losses associated with the open hedging positions adjusts for timing differences between when we recognize changes in the fair values of our assets and derivatives which we use to hedge asset values.

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

During the preparation of the Core Earnings calculation for the quarter ended September 30, 2014, the Company identified certain errors in its historical calculations, specifically the Company identified that (i) it had not appropriately considered the impact of noncontrolling interests in consolidated joint ventures in the computation of the adjustments for the real estate depreciation, amortization, and gain add-backs in the prior periods, (ii) certain tracking errors relating to unrecognized hedging derivative results and (iii) to reflect reclassifications from income tax expense to real estate operating expenses and operating expenses for the three and six months ended June 30, 2013 (see Note 2 to the Company's combined consolidated financial statements for further discussion). The Company believes the effect of these adjustments to the prior periods presented is immaterial to its Core Earnings as previously reported, however in order to present the comparative information consistently, we have revised previously presented Core Earnings for all impacted periods. All such impacted previously reported Core Earnings will be revised the next time such Core Earnings are included in the Company's filings. A summary of the impact of the revisions on previously reported amounts is as follows:

|                                      | As reported | NCI/Depreciation<br>related adjustments | Core Earnings<br>Unrecognized<br>hedging<br>adjustments<br>(in thousands) | Income Tax<br>Reclassification | As revised |
|--------------------------------------|-------------|---|---|--------------------------------|------------|
| <b>2014</b>                          |             |   |   |                                |            |
| Six months ended June 30, 2014       | \$ 119,147  | \$ (1,141)                              | \$ (825)  | \$                             | \$ 117,181 |
| Three months ended June 30, 2014     | 62,296      | (463)                                   | 14  |                                | 61,847     |
| Three months ended March 31, 2014    | 57,200      | (1,027)                                 | (839)   |                                | 55,334     |
| <b>2013</b>                          |             |   |   |                                |            |
| Year ended December 31, 2013         | \$ 202,297  | \$ (1,900)                              | \$ (56)   | \$                             | \$ 200,341 |
| Nine Months ended September 30, 2013 | 181,416     | (707)                                   | (402)   |                                | 180,307    |
| Six months ended June 30, 2013       | 135,276     | (82)                                    | 290   | (924)                          | 134,560    |
| Three months ended June 30, 2013     | 40,923      | (35)                                    | 1,044   | (924)                          | 41,008     |
| Three months ended March 31, 2013    | 94,353      | (47)                                    | (755)   |                                | 93,551     |



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

## Table of Contents

Set forth below is an unaudited reconciliation of income before taxes to Core Earnings (as revised):

|   | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|---|----------------------------------|------------------|---------------------------------|-------------------|
|   | 2014                             | 2013             | 2014                            | 2013              |
|   | (\$ in thousands)                |                  | (\$ in thousands)               |                   |
| Income before taxes   | \$ 47,511                        | \$ 21,850        | \$ 109,643                      | \$ 172,440        |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures (GAAP) | 306                              | (1,025)          | 451                             | (698)             |
| Our share of real estate depreciation, amortization and gain adjustments (1)                    | 4,752                            | 4,651            | 15,558                          | 10,493            |
| Adjustments for unrecognized derivative results (2)   | (8,000)                          | 24,177           | 29,157                          | (7,429)           |
| Unrealized (gain) loss on agency IO securities  | 1,282                            | (3,189)          | (466)                           | 1,850             |
| Premium (discount) on mortgage loan financing, net of amortization                              | (394)                            | (1,343)          | 634                             | 1,018             |
| Non-cash stock-based compensation   | 3,751                            | 624              | 11,413                          | 2,632             |
| <b>Core Earnings</b>  | <b>\$ 49,208</b>                 | <b>\$ 45,745</b> | <b>\$ 166,390</b>               | <b>\$ 180,306</b> |

|  | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|--|----------------------------------|-----------------|---------------------------------|------------------|
|  | 2014                             | 2013            | 2014                            | 2013             |
|  | (\$ in thousands)                |                 | (\$ in thousands)               |                  |
| (1) Our share of real estate depreciation, amortization and gain adjustment excludes amounts of current period depreciation and amortization expense as well as the effects of accumulated depreciation on gains of sales of real estate. It also excludes the related amounts that would be allocated to noncontrolling interests in consolidated joint ventures. Following is a reconciliation of the related consolidated GAAP amounts to the amounts reflected in the table above: |                                  |                 |                                 |                  |
| Total GAAP depreciation and amortization   | \$ 6,829                         | \$ 5,410        | \$ 21,274                       | \$ 11,609        |
| Less: Depreciation and amortization related to non-rental property fixed assets  | (137)                            | (136)           | (411)                           | (410)            |
| Less: Non-controlling interests share of consolidated depreciation and amortization  | (659)                            | (542)           | (2,023)                         | (567)            |
| Our share of real estate depreciation and amortization   | \$ 6,033                         | \$ 4,732        | \$ 18,840                       | \$ 10,632        |
| Realized gain from accumulated depreciation and amortization on real estate sold (see below)   | \$ (1,284)                       | \$ (83)         | \$ (3,508)                      | \$ (141)         |
| Less: Non-controlling interests share of accumulated depreciation and amortization on real estate sold   | 3                                | 2               | 226                             | 2                |
| Our share of accumulated depreciation and amortization on real estate sold   | \$ (1,281)                       | \$ (81)         | \$ (3,282)                      | \$ (139)         |
| <b>Our share of real estate depreciation and amortization and gain adjustments</b>   | <b>\$ 4,752</b>                  | <b>\$ 4,651</b> | <b>\$ 15,558</b>                | <b>\$ 10,493</b> |

GAAP gains/losses on sales of real estate include the effects of previously recognized real estate

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

depreciation and amortization. For purposes of core earnings, real estate depreciation and amortization are eliminated and, accordingly, the resultant gain/losses must also be adjusted. Following is a reconciliation of the related consolidated GAAP amounts to the amounts reflected in Core Earnings

|  |           |              |           |                |           |                 |           |               |
|--|-----------|--------------|-----------|----------------|-----------|-----------------|-----------|---------------|
| GAAP sale of real estate, net  | \$        | 8,471        | \$        | 3,525          | \$        | 24,225          | \$        | 10,887        |
| Less: Realized gain from accumulated depreciation and amortization on real estate sold |           | (1,284)      |           | (83)           |           | (3,508)         |           | (141)         |
| Adjusted gain/loss on sale of real estate for purposes of Core Earnings                | \$        | 7,187        | \$        | 3,442          | \$        | 20,717          | \$        | 10,746        |
| (2) Hedging interest expense   | \$        | (6,337)      | \$        | (1,991)        | \$        | (10,253)        | \$        | (6,916)       |
| Hedging realized result  |           | (538)        |           | 19,855         |           | (11,025)        |           | 16,122        |
| Hedging unrecognized result  |           | 8,000        |           | (24,177)       |           | (29,157)        |           | 7,429         |
| <b>Net results from derivative transactions</b>  | <b>\$</b> | <b>1,125</b> | <b>\$</b> | <b>(6,313)</b> | <b>\$</b> | <b>(50,435)</b> | <b>\$</b> | <b>16,635</b> |

We present Core Earnings because we believe it assists investors in comparing our performance across reporting periods on a consistent basis by excluding non-cash expenses and unrecognized results from derivatives and Agency interest-only securities, which we believe makes comparisons across reporting periods more relevant by eliminating timing differences related to changes in the values of assets and derivatives. In addition, we use Core Earnings: (i) to evaluate our earnings from operations and (ii) because management believes that it may be a useful performance measure for us.

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

### Table of Contents

Core Earnings has limitations as an analytical tool. Some of these limitations are:

- Core Earnings does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations and is not necessarily indicative of cash necessary to fund cash needs; and
- other companies in our industry may calculate Core Earnings differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Core Earnings should not be considered in isolation or as a substitute for net income attributable to shareholders or as an alternative to cash flow as a measure of our liquidity or any other performance measures calculated in accordance with GAAP.

In the future we may incur gains and losses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Core Earnings should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

### *Net results from loans sold into securitizations*

We present net result from loans sold into securitizations, a non-GAAP measure, as a supplemental measure of the performance of our loan securitization business. Net result from loans sold into securitizations is a key component of our results. Since our loans sold into securitizations to date are comprised of long-term fixed-rate loans, the result of hedging those exposures prior to securitization represents a substantial portion of our interest rate hedging. Therefore, we view these two components of our profitability together when assessing the performance of this business activity and find it a meaningful measure of the Company's performance as a whole. When evaluating the performance of our sale of loans into securitization business, we generally consider the income from sales of securitized loans, net, in conjunction with other income statement items that are directly related to such securitization transactions, including portions of the realized net result from derivative transactions that are specifically related to hedges on the securitized or sold loans, which we reflect as hedge gain/(loss) related to loans securitized, a non-GAAP measure, in the table below.

Set forth below is an unaudited reconciliation of income from sale of securitized loans, net to income from sale of loans, net as reported in our combined consolidated financial statements included herein and an unaudited reconciliation of hedge gain/(loss) relating to loans securitized to net results from derivative transactions as reported in our combined consolidated financial statements included herein:

|  | Three Months Ended September 30, |              | Nine Months Ended September 30, |              |
|--|----------------------------------|--------------|---------------------------------|--------------|
|  | 2014                             | 2013         | 2014                            | 2013         |
| Number of loans                                | 39                               | 66           | 117                             | 132          |
| Face amount of loans sold into securitizations |                                  |              |                                 |              |
| (\$ in thousands)                              | \$ 679,977                       | \$ 1,028,385 | \$ 2,338,359                    | \$ 2,182,034 |

Edgar Filing: Ladder Capital Corp - Form 10-Q

|   |           |           |            |            |
|---|-----------|-----------|------------|------------|
| Number of securitizations   | 2         | 2         | 7          | 5          |
| Income from sale of securitized loans, net (\$ in thousands)(1)     | \$ 20,414 | \$ 22,225 | \$ 106,935 | \$ 139,491 |
| Hedge gain/(loss) related to loans securitized (\$ in thousands)(2) | \$ 2,777  | \$ 19,855 | \$ (8,535) | \$ 16,389  |
| Net results from loans sold into securitizations (\$ in thousands)  | \$ 23,191 | \$ 42,080 | \$ 98,400  | \$ 155,880 |

(1) The following is a reconciliation of the non-GAAP measure of income from sale of securitized loans, net to income from sale of loans, net, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|  | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|--|----------------------------------|-----------|---------------------------------|------------|
|  | 2014                             | 2013      | 2014                            | 2013       |
|  | (\$ in thousands)                |           | (\$ in thousands)               |            |
| Income from sale of loans (non-securitized), net | \$                               | \$        | \$ 200                          | \$ 1,555   |
| Income from sale of securitized loans, net       | 20,414                           | 22,225    | 106,935                         | 139,491    |
| Income from sale of loans, net                   | \$ 20,414                        | \$ 22,225 | \$ 107,135                      | \$ 141,046 |

(2) The following is a reconciliation of the non-GAAP measure of hedge gain/(loss) related to loans securitized to net results from derivative transactions, which is the closest GAAP measure, as reported in our combined consolidated financial statements included herein.

|   | Three Months Ended September 30, |             | Nine Months Ended September 30, |           |
|---|----------------------------------|-------------|---------------------------------|-----------|
|   | 2014                             | 2013        | 2014                            | 2013      |
|   | (\$ in thousands)                |             | (\$ in thousands)               |           |
| Hedge gain/(loss) related to lending and securities positions | \$ (1,652)                       | \$ (26,168) | \$ (41,900)                     | \$ 246    |
| Hedge gain/(loss) related to loans securitized                | 2,777                            | 19,855      | (8,535)                         | 16,389    |
| Net results from derivative transactions                      | \$ 1,125                         | \$ (6,313)  | \$ (50,435)                     | \$ 16,635 |

# Table of Contents

## Cost of funds

We present cost of funds, which is a non-GAAP measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our combined consolidated statements of income adjusted to include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our combined consolidated statements of income.

Set forth below is an unaudited reconciliation of interest expense to cost of funds:

|  | Three Months Ended September 30, |                    | Nine Months Ended September 30, |                    |
|--|----------------------------------|--------------------|---------------------------------|--------------------|
|  | 2014                             | 2013               | 2014                            | 2013               |
|  | (\$ in thousands)                |                    | (\$ in thousands)               |                    |
| Interest expense   | \$ (19,928)                      | \$ (12,554)        | \$ (51,521)                     | \$ (35,703)        |
| Net interest expense component of hedging activities (1) | (6,537)                          | (1,799)            | (10,014)                        | (6,664)            |
| <b>Cost of funds</b>                                     | <b>\$ (26,465)</b>               | <b>\$ (14,352)</b> | <b>\$ (61,535)</b>              | <b>\$ (42,367)</b> |
| Interest income  | \$ 48,459                        | \$ 29,633          | \$ 130,394                      | \$ 91,062          |
| Cost of funds  | (26,465)                         | (14,352)           | (61,535)                        | (42,367)           |
| <b>Interest income, net of cost of funds</b>             | <b>\$ 21,994</b>                 | <b>\$ 15,281</b>   | <b>\$ 68,859</b>                | <b>\$ 48,695</b>   |

|  | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                  |
|--|----------------------------------|-------------------|---------------------------------|------------------|
|  | 2014                             | 2013              | 2014                            | 2013             |
|  | (\$ in thousands)                |                   | (\$ in thousands)               |                  |
| (1) Net interest expense component of hedging activities | \$ (6,537)                       | \$ (1,799)        | \$ (10,014)                     | \$ (6,664)       |
| Hedging realized result                                  | (738)                            | 20,355            | (10,839)                        | 16,272           |
| Hedging unrecognized result                              | 8,400                            | (24,869)          | (29,582)                        | 7,027            |
| <b>Net result from derivative transactions</b>           | <b>\$ 1,125</b>                  | <b>\$ (6,313)</b> | <b>\$ (50,435)</b>              | <b>\$ 16,635</b> |

## Net revenues

We present net revenues, which is a non-GAAP measure, as a supplemental measure of the Company's performance, excluding operating expenses. We define net revenues as net interest income after provision for loan losses and total other income, which are both disclosed on the Company's combined consolidated statements of income. We present interest income on investments, net and income from sales of loans, net as a percent of net revenues to determine the impact of the net interest from our investments and the securitization activity on our net revenues.

Three Months Ended  
September 30,

Nine Months Ended  
September 30,

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

|   | 2014              |               | 2013      |               | 2014              |                | 2013      |                |
|---|-------------------|---------------|-----------|---------------|-------------------|----------------|-----------|----------------|
|   | (\$ in thousands) |               |           |               | (\$ in thousands) |                |           |                |
| Net interest income after provision for loan losses | \$                | 28,381        | \$        | 16,929        | \$                | 78,423         | \$        | 54,909         |
| Total other income                                  |                   | 61,337        |           | 35,525        |                   | 157,260        |           | 205,478        |
| <b>Net revenues</b>                                 | <b>\$</b>         | <b>89,719</b> | <b>\$</b> | <b>52,454</b> | <b>\$</b>         | <b>235,683</b> | <b>\$</b> | <b>260,387</b> |

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### *Interest Rate Risk*

The nature of the Company's business exposes it to market risk arising from changes in interest rates. Changes, both increases and decreases, in the rates the Company is able to charge its borrowers, the yields the Company is able to achieve in its securities investments, and the Company's cost of borrowing directly impacts its net income. The Company's interest income stream from loans and securities is generally fixed over the life of its assets, whereas it uses floating-rate debt to finance a significant portion of its investments. Another component of interest rate risk is the effect changes in interest rates will have on the market value of the assets the Company acquires. The Company faces the risk that the market value of its assets will increase or decrease at different rates than that of its liabilities, including its hedging instruments. The Company mitigates interest rate risk through utilization of hedging instruments, primarily interest rate swap and futures agreements. Interest rate swap and futures agreements are utilized to hedge against future interest rate increases on the Company's borrowings and potential adverse changes in the value of certain assets that result from interest rate changes. The Company generally seeks to hedge assets that have a duration longer than five years, including newly originated conduit first mortgage loans, securities in the Company's CMBS portfolio if long enough in duration, and most of its U.S. Agency Securities portfolio.

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

### Table of Contents

The following table summarizes the change in net income for a 12-month period commencing September 30, 2014 and the change in fair value of our investments and indebtedness assuming an increase or decrease of 100 basis points in the LIBOR interest rate on September 30, 2014, both adjusted for the effects of our interest rate hedging activities (\$ in thousands):

|                          | Projected change<br>in net income | Projected change<br>in portfolio<br>value |
|--------------------------|-----------------------------------|---|
| Change in interest rate: |                                   |   |
| Decrease by 1.00%        | \$ (7,205)                        | \$ 30,819                                 |
| Increase by 1.00%        | 14,466                            | (29,228)                                  |

### ***Market Value Risk***

The Company's securities investments are reflected at their estimated fair value. The change in estimated fair value of securities available-for-sale is reflected in accumulated other comprehensive income. The change in estimated fair value of Agency interest-only securities is recorded in current period earnings. The estimated fair value of these securities fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the market value of the Company's assets may be adversely impacted. The Company's fixed rate mortgage loan portfolio is subject to the same risks. However, to the extent those loans are classified as held for sale, they are reflected at the lower of cost or market. Otherwise, held for investment mortgage loans are reflected at values equal to the unpaid principal balances net of certain fees, costs and loan loss allowances.

### ***Liquidity Risk***

Market disruptions may lead to a significant decline in transaction activity in all or a significant portion of the asset classes in which the Company invests and may at the same time lead to a significant contraction in short-term and long-term debt and equity funding sources. A decline in liquidity of real estate and real estate-related investments, as well as a lack of availability of observable transaction data and inputs, may make it more difficult to sell the Company's investments or determine their fair values. As a result, the Company may be unable to sell its investments, or only be able to sell its investments at a price that may be materially different from the fair values presented. Also, in such conditions, there is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining leverage will continue to be available or, if available, will be available on terms and conditions acceptable to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where it borrowed money based on the fair value of its assets. A decrease in the market value of the Company's assets may result in the lender requiring it to post additional collateral or otherwise sell assets at a time when it may not be in the Company's best interest to do so. The Company's captive insurance company subsidiary is subject to state regulations which require that dividends may only be made with regulatory approval. The Company established a broker-dealer subsidiary, Ladder Capital Securities LLC (LCS), which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with FINRA and SEC regulations which require that dividends may only be made with regulatory approval.

### ***Credit Risk***

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

The Company is subject to varying degrees of credit risk in connection with its investments. The Company seeks to manage credit risk by performing deep credit fundamental analyses of potential assets and through ongoing asset management. The Company's investment guidelines do not limit the amount of its equity that may be invested in any type of its assets; however, investments greater than a certain size are subject to approval by the Risk and Underwriting Committee of the Board of Directors.

### ***Credit Spread Risk***

Credit spread risk is the risk that interest rate spreads between two different financial instruments will change. In general, fixed-rate commercial mortgages and CMBS are priced based on a spread to Treasury swaps. The Company generally benefits if credit spreads narrow during the time that it holds a portfolio of mortgage loans or CMBS investments, and the Company may experience losses if credit spreads widen during the time that it holds a portfolio of mortgage loans or CMBS investments. The Company actively monitors its exposure to changes in credit spreads and the Company may enter into credit total return swaps or take positions in other credit related derivative instruments to moderate its exposure against losses associated with a widening of credit spreads.

### ***Risks Related to Real Estate***

Real estate and real estate-related assets, including loans and commercial real estate-related securities, are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued



Table of Contents

weakness in specific industry segments; construction quality, age and design; demographic factors; environmental conditions; competition from comparable property types or properties; changes in tenant mix or performance and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause the Company to suffer losses.

***Covenant Risk***

In the normal course of business, the Company enters into loan and securities repurchase agreements and credit facilities with certain lenders to finance its real estate investment transactions. These agreements contain, among other conditions, events of default and various covenants and representations. If such events are not cured by the Company or waived by the lenders, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its advances or loans. In addition, the Company's Notes are subject to covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. The Company's failure to comply with these covenants could result in an event of default, which could result in the Company being required to repay these borrowings before their due date. As of September 30, 2014, the Company believes it was in compliance with all covenants.

***Diversification Risk***

The assets of the Company are concentrated in the real estate sector. Accordingly, the investment portfolio of the Company may be subject to more rapid change in value than would be the case if the Company were to maintain a wide diversification among investments or industry sectors. Furthermore, even within the real estate sector, the investment portfolio may be relatively concentrated in terms of geography and type of real estate investment. This lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

***Concentrations of Market Risk***

Concentrations of market risk may exist with respect to the Company's investments. Market risk is a potential loss the Company may incur as a result of change in the fair values of its investments. The Company may also be subject to risk associated with concentrations of investments in geographic regions and industries.

***Regulatory Risk***

The Company established a broker-dealer subsidiary, LCS, which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with FINRA and SEC requirements on an ongoing basis and is subject to multiple operating and reporting requirements to which all broker-dealer entities are subject. The Company established registered investment advisor subsidiaries, Ladder Capital Adviser LLC and LCR Income I GP LLC (the "Advisers"). The Advisers are required to be compliant with SEC requirements on an ongoing basis and are subject to multiple operating and reporting requirements that all registered investment advisers are subject to. In addition, Tuebor is subject to

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

state regulation as a captive insurance company. If LCS, the Advisers or Tuebor fail to comply with regulatory requirements, they could be subject to loss of their licenses and registration and/or economic penalties.

### Item 4. Controls and Procedures

#### *Disclosure Controls and Procedures*

Under the supervision of, and with the participation of, management we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act ) as of September 30, 2014. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of September 30, 2014, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Table of Contents

**Part II - Other Information**

**Item 1. Legal Proceedings**

From time to time, we may be involved in litigation and claims incidental to the conduct of our business in the ordinary course. Further, certain of our subsidiaries, including our registered broker-dealer, registered investment advisers and captive insurance company, are subject to scrutiny by government regulators, which could result in enforcement proceedings or litigation related to regulatory compliance matters. We are not presently a party to any enforcement proceedings, litigation related to regulatory compliance matters or any other type of material litigation matters. We maintain insurance policies in amounts and with the coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards.

**Item 1A. Risk Factors**

There have been no material changes during the three months ended September 30, 2014 to the risk factors in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

Table of Contents

**Item 6. Exhibits**

**EXHIBIT INDEX**

| <b>EXHIBIT NO.</b> | <b>DESCRIPTION</b>  |
|--------------------|---|
| 4.1                | Second Supplemental Indenture, dated as of March 28, 2014, by and among Ladder Capital Corp, as guarantor, Ladder Capital Finance Holdings LLLP and Ladder Capital Finance Corporation, as co-issuers, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on April 3, 2014)   |
| 4.2                | Indenture, dated August 1, 2014, among Ladder Capital Finance Holdings LLLP, Ladder Capital Finance Corporation, the guarantors party thereto and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on April 3, 2014)  |
| 4.3                | Form of 5.875% Senior Note Due 2021 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on April 3, 2014)   |
| 31.1               | Certification of Brian Harris pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2               | Certification of Marc Fox pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1*              | Certification of Brian Harris pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2*              | Certification of Marc Fox pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101                | Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) the Combined Consolidated Balance Sheets as of September 30, 2014, (ii) the Combined Consolidated Statements of Income for the three and nine months ended September 30, 2014, (iii) the Combined Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2014, (iv) the Combined Consolidated Statements of Changes in Equity/Capital for the nine months ended September 30, 2014, (v) the Combined Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and (vi) the Notes to the Combined Consolidated Financial Statements. |

---

\* The certifications attached hereto as Exhibits 32.1 and 32.2 are furnished to the SEC pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LADDER CAPITAL CORP  
(Registrant)

Date: November 7, 2014

By: */s/ BRIAN HARRIS*  
Brian Harris  
*Chief Executive Officer*

Date: November 7, 2014

By: */s/ MARC FOX*  
Marc Fox  
*Chief Financial Officer*