Ladder Capital Corp
Form 10-Q
November 07, 2014
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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 x No o

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 x No o

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 o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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

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LADDER CAPITAL CORP

FORM 10-Q

September 30, 2014

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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, d 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;

- 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.

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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.

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)

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Ladder Capital Corp and Predecessor

Combined Consolidated Balance Sheets

(unaudited)

	September 30, 2014	December 31, 2013
Assets		
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
Total assets	**$ 4,673,793,182**	**$ 3,489,063,267**
Liabilities and Capital		
Liabilities		
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
Total liabilities	**3,188,223,461**	**2,303,829,502**
Commitments and contingencies		
Equity (capital)		
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)	
Total shareholders equity (partners capital)	**773,231,509**	**1,176,397,231**
Noncontrolling interest in operating partnership	704,720,635	
Noncontrolling interest in consolidated joint ventures	7,617,577	8,836,534
Total equity (capital)	**1,485,569,721**	**1,185,233,765**

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.

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Ladder Capital Corp and Predecessor

Combined Consolidated Statements of Income

(unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net interest income				
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
Net interest income	**28,531,209**	**17,078,701**	**78,872,698**	**55,358,892**
Provision for loan losses	150,000	150,000	450,000	450,000
Net interest income after provision for loan losses	**28,381,209**	**16,928,701**	**78,422,698**	**54,908,892**
Other income				
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	
Total other income	**61,337,408**	**35,525,140**	**157,260,209**	**205,477,846**
Costs and expenses				
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
Total costs and expenses	**42,207,429**	**30,603,441**	**126,040,363**	**87,946,870**
Income before taxes	**47,511,188**	**21,850,400**	**109,642,544**	**172,439,868**
Income tax expense	10,334,853	663,868	23,822,694	3,450,948
Net income	**37,176,335**	**21,186,532**	**85,819,850**	**168,988,920**
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)	
Net income attributable to Class A common shareholders	**$ 14,655,978**		**$ 39,813,107**	

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.

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Ladder Capital Corp and Predecessor

Combined Consolidated Statements of Comprehensive Income

(unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	**$ 37,176,335**	**$ 21,186,532**	**$ 85,819,850**	**$ 168,988,920**
Other comprehensive income (loss)				
Unrealized gains on securities, net of tax:				
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)
Total other comprehensive income (loss)	**(18,563,146)**	**5,789,803**	**11,650,623**	**(11,041,696)**
Comprehensive income	**18,613,189**	**26,976,335**	**97,470,473**	**157,947,224**
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	306,209	(1,024,751)	451,320	(697,721)
Comprehensive income of combined Class A common shareholders and Predecessor unit holders	**$ 18,919,398**	**$ 25,951,584**	**$ 97,921,793**	**$ 157,249,503**
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)	
Comprehensive income attributable to Class A common shareholders	**$ 7,501,306**		**$ 37,682,734**	

(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.

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Ladder Capital Corp and Predecessor

Combined Consolidated Statements of Changes in Equity/Capital

(unaudited)

	Predecessor s Partners Capital				**Shareholders Equity**									
	Series A Preferred Units	**Series B Preferred Units**	**Common Units**	**LP Units**	**Class A Common Stock Shares**	**Class A Common Stock Par**	**Class B Common Stock Shares**	**Class B Common Stock Par**	**Additional Paid-in-Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Noncontrolling Interests Operating Partnership**	**Noncontrolling Interests Consolidated Joint Ventures**	**Total St Equity Ca**
Balance, December 31, 2012	**$ 781,100,600**	**$ 272,215,202**	**$ 44,372,247**	**$**		**$**		**$**	**$**	**$**	**$**	**$**	**$ 582,166**	**$ 1,098,270,215**
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)
Balance, December 31, 2013	**$ 825,985,422**	**$ 290,846,531**	**$ 59,565,278**	**$**		**$**		**$**	**$**	**$**	**$**	**$**	**$ 8,836,534**	**$ 1,185,233,765**
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)	(60,441,260)	1,180,698,328										
Exchange of capital for common stock				(483,601,646)	33,672,192	33,672			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)		12,826,991			(12,827,865)		
Adjustment to tax receivable agreement as a result of the									137,777					137,777

exchange of 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					(2,130,373)	(3,226,944)		11,650,623
Rebalancing of ownership percentage between Company and Operating Partnership							144,844	86,928	(231,772)		
Balance, September 30, 2014				**51,471,579**	**51,471**	**47,656,143**	[illegible]	[illegible]	[illegible]	**7,617,577**	**1,485,569,721**

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

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Ladder Capital Corp and Predecessor

Combined Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
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
Net cash provided by (used in) operating activities	**366,708,767**	**765,355,921**
Cash flows used in investing activities:		
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

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
Net cash provided by (used in) investing activities		**(1,404,871,078)**		**(406,419,537)**
Cash flows from financing activities:				
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		
Net cash provided by (used in) financing activities		**1,047,253,384**		**(341,587,618)**
Net increase (decrease) in cash		**9,091,073**		**17,348,766**
Cash and cash equivalents at beginning of period		78,742,257		45,178,565
Cash and cash equivalents at end of period	**$**	**87,833,330**	**$**	**62,527,331**
Supplemental information:				
Cash paid for interest	**$**	**50,508,752**	**$**	**33,670,316**
Cash paid for income taxes	**$**	**9,539,391**	**$**	**3,274,256**
Supplemental disclosure of non-cash operating activities:				
Establishment of deferred tax asset	**$**	**5,543,859**	**$**	
Supplemental disclosure of non-cash investing activities:				
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	**$**	**19,321,600**	**$**	
Supplemental disclosure of non-cash financing activities:				
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.

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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.

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;

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- 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.

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.

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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

- 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.

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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 borrowers 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.

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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 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.

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

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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.

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.

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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 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 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.

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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.

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4. MORTGAGE LOAN RECEIVABLES

September 30, 2014

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (2)	Remaining Maturity (years)
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
Total	**$ 1,545,494,486**	**$ 1,529,780,495**		

December 31, 2013

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (2)	Remaining Maturity (years)
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
Total	**$ 990,348,577**	**$ 979,567,971**		

(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:

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

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

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

		Mortgage loan receivables held for investment, at amortized cost		**Mortgage loan receivables held for sale**
Balance December 31, 2012	**$**	**326,318,550**	**$**	**623,332,620**
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)		
Balance September 30, 2013	**$**	**369,609,166**	**$**	**93,031,322**

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		Mortgage loan receivables held for investment, at amortized cost		Mortgage loan receivables held for sale
Balance December 31, 2013	**$**	**539,078,182**	**$**	**440,489,789**
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)		
Balance September 30, 2014	**$**	**1,323,279,126**	**$**	**206,501,369**

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 borrowers business plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and other market data. As a result of this analysis, the Company has concluded that none of its loans are individually impaired. 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	
Provision for loan losses at beginning of period	$	2,800,000	$	2,200,000	$	2,500,000	$	1,900,000
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):

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September 30, 2014

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

December 31, 2013

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

(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):

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
Total	**$ 356,508**	**$ 1,036,087**	**$ 778,868**	**$ 5,152**	**$ 2,176,615**

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
Total	**$ 245,500**	**$ 761,205**	**$ 643,851**	**$ 6,690**	**$ 1,657,246**

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.

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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.

- 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.

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- 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)
Income from properties sold	**$ 454,720**	**$ 603,639**	**$ 1,736,671**	**$ 1,693,298**

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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 Historical	**Acquisitions**	**Consolidated Pro Forma**	**Company Historical**	**Acquisitions**	**Consolidated 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 Historical	**Acquisitions**	**Consolidated Pro Forma**	**Company Historical**	**Acquisitions**	**Consolidated 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

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)
Real estate, net	**$**	**652,587,432**	**$**	**624,219,015**

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
Total real estate depreciation and amortization expense	**$**	**6,692,264**	**$**	**5,272,970**	**$**	**20,863,407**	**$**	**11,198,505**

(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.

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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
Total	$	82,681,904

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
Total	$	532,483,277

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.

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.

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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

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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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 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.

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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	$ 192,147,189	$ 192,225,092
$ 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					$ 404,352,125	$ 404,430,028
$ 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	Investment grade commercial real estate securities	$ 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

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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 comercial 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.

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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 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

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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:

Period ending December 31,		**Borrowings by Maturity**
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
Total	$	3,071,450,745

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

				pricing services		
Nonhedge derivatives(1)(7)	154,500	N/A	7,530	Counterparty 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.

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December 31, 2013

	Outstanding Face Amount	Amortized Cost Basis	Fair Value	Fair Value Method	Yield %	Weighted Average Remaining Maturity/Duration (years)
Assets:						
CMBS(1)	$ 1,160,741	$ 1,156,230	$ 1,164,936	Broker quotations, pricing services	4.08%	4.88
CMBS interest-only(1)	5,702,862(8)	256,869	258,058	Broker quotations, pricing services	4.19%	3.38
GNMA interest-only(1)	1,848,270(8)	103,136	99,877	Broker quotations, pricing services	5.32%	2.12
FHLMC interest-only(1)	219,677(8)	7,904	8,152	Broker quotations, pricing services	5.21%	3.04
GN construction securities(1)	12,858	13,261	13,007	Broker quotations, pricing services	3.49%	6.57
GN permanent securities(1)	108,310	110,724	113,216	Broker quotations, 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
Liabilities:						
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, 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.

(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.

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(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 Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
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
Liabilities:					
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

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December 31, 2013

	Outstanding Face Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
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 investment	549,574			541,578	541,578
Mortgage loan receivable held for sale	440,775			455,804	455,804
FHLB stock	49,450			49,450	49,450
Nonhedge derivatives(1)	808,700		8,244		8,244
Liabilities:					
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

Contract Type	Notional	Fair Value Asset(1)	Fair Value Liability(1)	Remaining Maturity (years)
Caps				
1MO LIB	**$ 71,250,000**	**$ 30**	**$**	**0.66**
Futures				
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
Total futures	**1,285,800,000**	**5,412,863**	**587,501**	
Swaps				
3MO LIB	**121,000,000**		**6,337,809**	**3.77**
Credit Derivatives				
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
Total credit derivatives	**43,560,000**	**337,761**	**604,258**	
Total derivatives	**$ 1,521,610,000**	**$ 5,750,654**	**$ 7,529,568**	

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December 31, 2013

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

(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:

	Three Months Ended September 30, 2014			**Nine Months Ended September 30, 2014**		
Contract Type	**Unrealized Gain/(Loss)**	**Realized Gain/(Loss)**	**Net Result from Derivative Transactions**	**Unrealized Gain/(Loss)**	**Realized Gain/(Loss)**	**Net Result from Derivative 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 Derivatives	191,255	(98,389)	92,866	(19,660)	(393,223)	(412,883)
Total	**$ 13,961,769**	**$ (12,836,583)**	**$ 1,125,186**	**$ (2,822,870)**	**$ (47,611,934)**	**$ (50,434,804)**

	Three Months Ended September 30, 2013			**Nine Months Ended September 30, 2013**		
Contract Type	**Unrealized Gain/(Loss)**	**Realized Gain/(Loss)**	**Net Result from Derivative Transactions**	**Unrealized Gain/(Loss)**	**Realized Gain/(Loss)**	**Net Result from Derivative Transactions**
Caps	$ (123)	$	$ (123)	$ (21)	$	$ (21)

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)
Total	**$**	**(25,041,990)**	**$**	**18,728,743**	**$**	**(6,313,247)**	**$**	**(4,694,988)**	**$**	**21,330,477**	**$**	**16,635,489**

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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

				Gross amounts not offset in the balance sheet		
Description	**Gross amounts of recognized assets**	**Gross amounts offset in the balance sheet**	**Net amounts of assets presented in the balance sheet**	**Financial instruments**	**Cash collateral 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

				Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Financial instruments collateral	Cash collateral posted/(received)(1)	Net amount
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.

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As of December 31, 2013

Offsetting of Financial Assets and Derivative Assets

Description	Gross amounts of recognized assets	Gross amounts offset in the balance sheet	Net amounts of assets presented in the balance sheet	Gross amounts not offset in the balance sheet: Financial instruments	Gross amounts not offset in the balance sheet: Cash collateral 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

Net amounts of