

SECURITY CAPITAL CORP/DE/
Form 8-K
August 17, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

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

August 13, 2004

Date of report (Date of earliest event reported)

Security Capital Corporation

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other
Jurisdiction of
Incorporation)

1-7921
(Commission File Number)

13-3003070
(IRS Employer
Identification No.)

Eight Greenwich Office Park, Third Floor, Greenwich, CT
(Address of Principal Executive Offices)

06831
(Zip Code)

203-625-0770

(Registrant's telephone number, including area code)

(Former Name or Address, if Changed Since Last Report)

Item 5. Other Events and Required FD Disclosure.

On August 16, 2004, Security Capital Corporation announced that it received a letter (the Increased Offer Letter) from Brian D. Fitzgerald, a representative of Security Capital Corporation's majority stockholder, CP Acquisition, L.P. No. 1, making a revised offer at a price per share of \$9.65. The revised offer described above increases the price from the \$9.50 per share offer previously announced on July 28, 2004. The foregoing description of the Increased Offer Letter is qualified in its entirety by reference to the full text of the Increased Offer Letter, which is attached as Exhibit 99.1 hereto, and is incorporated herein by reference.

The decision as to whether to proceed with the above-described proposal will depend on whether Mr. Fitzgerald, CP Acquisition, L.P. No. 1 and certain of their affiliates can agree with Security Capital Corporation on the terms and conditions of a definitive merger agreement and whether the conditions to closing to be set forth in any such agreement are satisfied.

Security Capital Corporation also announced that it is aware of an additional complaint filed naming Security Capital Corporation, each member of its board of directors and CP Acquisition, L.P. No. 1 relating to the proposed acquisition described above. This complaint is in addition to the two complaints previously announced on July 28, 2004.

A copy of the press release is attached hereto as Exhibit 99.2 and incorporated herein by reference.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits.

99.1 Offer Letter, dated August 13, 2004, from Brian D. Fitzgerald to Security Capital Corporation.

99.2 Press Release of Security Capital Corporation, dated August 16, 2004.

SIGNATURES

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

Date: August 17, 2004

By: /s/ Brian D. Fitzgerald
Name: Brian D. Fitzgerald
Title: Chairman of the Board,
President and Chief
Executive Officer

INDEX TO EXHIBITS

| Exhibit No. | Description |
|--------------------|------------------------------------------------------------------------------------------------|
| 99.1 | Offer Letter, dated August 13, 2004, from Brian D. Fitzgerald to Security Capital Corporation. |
| 99.2 | Press Release of Security Capital Corporation, dated August 16, 2004. |

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Provision for loan losses (net of recoveries) totaled \$3.3 million for the six months ended June 30, 2013, and \$15.7 million for the six months ended June 30, 2012. At June 30, 2013, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of \$26.6 million was less than the net carrying value of the loans, resulting in us recording an additional \$4.0 million provision for loan losses. We also recorded a \$0.7 million of recoveries of previously recorded loan loss reserves in the first and second quarters of 2013, respectively, which were recorded in provision for loan losses on the Consolidated Statement of Operations, netting the provision to \$3.3 million for the six months ended June 30, 2013. At June 30, 2013 we had a total of 20 loans with an aggregate carrying value of \$247.6 million, before loan loss reserves, for which impairment reserves have been recorded. At June 30, 2012, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing three impaired loans with an aggregate carrying value of \$55.4 million was less than the net carrying value of the loans, resulting in us recording an additional \$16.4 million provision for loan losses. We also recorded net recoveries of less than \$0.1 million in the first quarter of 2012 and \$0.7 million in the second quarter of 2012, netting the provision to \$15.7 million for the six months ended June 30, 2012. At June 30, 2012, we had a total of 20 loans with an aggregate carrying value of \$271.7 million, before loan loss reserves, for which impairment reserves were recorded.

Management fees increased \$0.6 million, or 12%, to \$5.6 million for the six months ended June 30, 2013 from \$5.0 million for the six months ended June 30, 2012. These amounts represent compensation in the form of base management fees, on a cost reimbursement basis. The management agreement also provides for incentive management fees and success-based payments to be paid to our manager upon the completion of specified corporate objectives in addition to the standard base management fee. No incentive or success-based management fees were earned for the six months ended June 30, 2013 and 2012. Refer to Contractual Commitments Management Agreement below for further details including information related to our amended management agreement with ACM.

Gain on extinguishment of debt decreased \$22.6 million, or 86%, to \$3.8 million for the six months ended June 30, 2013 from \$26.3 million for the six months ended June 30, 2012. During the six months ended June 30, 2013, we purchased, at a discount, a \$7.1 million investment grade rated Class H note originally issued by our CDO III issuing entity from a third party investor and recorded a gain on early extinguishment of debt of \$3.8 million. During the six months ended June 30, 2012, we purchased, at a discount, \$57.2 million of investment grade rated Class B, C, D, E, F, G and H notes originally issued by our CDO II and CDO III issuing entities from third party investors and recorded a net gain on early extinguishment of debt of \$26.3 million.

Loss from equity affiliates was \$0.2 million and \$0.5 million for the six months ended June 30, 2013 and 2012, respectively, which reflects our portion of the loss and income from our equity affiliates.

Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of June 30, 2013 and 2012, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT taxable income for the six months ended June 30, 2013 and 2012, except for \$0.6 million of federal alternative minimum tax recorded in the second quarter of 2012.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the six months ended June 30, 2013 and 2012, we did not record a provision for income taxes for these taxable REIT subsidiaries. However, during the first quarter of 2012 we recorded a \$1.4 million receivable for the expected refund of income taxes paid by a taxable REIT subsidiary in a prior year which was received in the third quarter of 2012.

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Income (loss) from Discontinued Operations

During the fourth quarter of 2012, one of the real estate investments in a portfolio of hotel properties was sold to a third party for \$2.4 million and we recorded a gain on sale of \$0.5 million. As a result, property operating income and expenses, which netted to income of less than \$0.1 million for the six months ended June 30, 2012, was classified as discontinued operations.

During the fourth quarter of 2011, we entered into negotiations to sell one of our real estate owned investments to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a value of \$19.4 million and property operating income and expenses, which netted to income of \$0.1 million for the six months ended June 30, 2012 were classified as discontinued operations. In the first quarter of 2012, we sold the property and recorded a gain of \$3.5 million.

During the third quarter of 2011, we entered into negotiations to sell another of our real estate owned investments to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a value of \$1.9 million, which was reduced to \$1.2 million in the fourth quarter of 2011, and property operating income and expenses, which netted to income of \$0.2 million for the six months ended June 30, 2012 were classified as discontinued operations. In the first quarter of 2012, we sold the property and recorded a gain of less than \$0.1 million.

During the third quarter of 2009, we mutually agreed with a first mortgage lender to appoint a receiver to operate another of our real estate owned investments and we were working to assist in the transfer of title to the first mortgage lender. As a result we reclassified this investment from real estate owned to real estate held-for-sale at a fair value of \$41.4 million. In May 2012, we surrendered the property to the first mortgage lender in full satisfaction of a \$41.4 million mortgage note payable and recorded income from discontinued operations of \$1.2 million related to the reversal of accrued liabilities which were not incurred.

Preferred Stock Dividend

Preferred stock dividend was \$1.7 million for the six months ended June 30, 2013 and represents the first quarter of 2013 dividend of \$1.1 million as well as the accruals of the second quarter of 2013 dividends of \$0.3 million and \$0.4 million on our 8.25% Series A and 7.75% Series B cumulative redeemable preferred stock, respectively, which are contractually payable by September 3, 2013.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled \$0.1 million for the six months ended June 30, 2013 and 2012, and represents the portion of income allocated to a third party's interest in a consolidated subsidiary, which holds an investment in operating partnership units that are accruing interest and dividend income as well as a note payable that is accruing interest expense. See Note 12 of the Notes to the Consolidated Financial Statements set forth in Item 1 herein.

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Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future loans and investments, fund additional cash collateral from potential declines in the value of a portion of our interest rate swaps, fund operating costs and distributions to our stockholders as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity offerings, debt facilities and cash flows from our operations. Our equity sources, depending on market conditions, consist of proceeds from capital market transactions including the issuance of common, convertible and/or preferred equity securities. Our debt facilities include the issuance of floating rate notes resulting from our CDOs and our new CLOs, the issuance of junior subordinated notes and borrowings under credit agreements. Net cash flows from operations include interest income from our loan and investment portfolio reduced by interest expense on our debt facilities, cash from other investments reduced by expenses, repayments of outstanding loans and investments and funds from junior loan participation arrangements.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term and long-term liquidity needs. A majority of our loans and investments are financed under existing debt obligations and their credit status is continuously monitored; therefore, these loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders and investors resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

While we have been successful in obtaining proceeds from equity offerings and from certain financing facilities in 2012 and 2013 to date, including our new CLOs, current conditions in the capital and credit markets have and may continue to make certain forms of financing less attractive and, in certain cases, less available. Therefore we will continue to rely, in part, on cash flows provided by operating and investing activities for working capital.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements.

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As of June 30, 2013 and 2012, we had cash and cash equivalents of \$50.7 million and \$64.3 million, respectively. The following table shows our cash flow components (in thousands):

| | Six Months Ended | | |
|-------------------------------------------------------|------------------|-----------|-----------|
| | June 30, | | |
| | 2013 | | 2012 |
| Net cash provided by operating activities | \$ | 13,102 | \$ 7,160 |
| Net cash (used in) / provided by investing activities | | (219,950) | 33,773 |
| Net cash provided by / (used in) financing activities | | 228,371 | (31,887) |
| Net increase in cash and cash equivalents | | 21,523 | 9,046 |
| Cash and cash equivalents at beginning of period | | 29,189 | 55,236 |
| Cash and cash equivalents at end of period | \$ | 50,712 | \$ 64,282 |

Our cash flows from operating activities increased by \$5.9 million for the six months ended June 30, 2013 compared to the comparable period in 2012 primarily due to a \$4.1 million increase in net income adjusted for noncash expenses, gains and losses, as well as a \$3.9 million increase in cash due to the change in other assets, net of a \$1.1 million decrease in other liabilities.

Cash flows from investing activities decreased by \$253.7 million for the six months ended June 30, 2013 compared to the comparable period in 2012 primarily due to a \$197.2 million increase in the origination of loans, a \$44.4 million decrease in payoffs and paydowns, a \$24.1 million decrease in the sale of real estate held-for-sale, and a \$17.9 million decrease in the proceeds from the sale of a loan, net of a \$29.7 million decrease in the purchase of investments, net of principal collections, as compared to the first six months of 2012.

Cash flows from financing activities increased by \$260.3 million for the six months ended June 30, 2013 compared to the comparable period in 2012 mainly due to \$177.0 million in proceeds from the completion of a collateralized loan obligation, \$70.8 million from the issuance of common stock, \$67.7 million from the issuance of preferred stock, a \$20.8 million repayment in 2012 of a mortgage note payable held-for-sale, a \$19.2 million increase in restricted cash, a \$1.7 million increase in proceeds from repurchase agreements and credit facilities, and a \$1.5 million decrease in the amortization of our CDO vehicles as well as the purchase of our own CDO bonds. This change is net of a \$82.5 million increase in the repayment of repurchase agreements and credit facilities, the payment of common stock and preferred stock dividends of \$8.6 million and a \$4.6 million increase in the payment of deferred financing costs.

Equity Offerings

Our authorized capital provides for the issuance of up to 500 million shares of common stock, par value \$0.01 per share, and 100 million shares of preferred stock, par value \$0.01 per share.

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In June 2010, we filed a shelf registration statement on Form S-3 with the SEC under the 1933 Act with respect to an aggregate of \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants, that may be sold by us from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective. In June 2013, we filed a new shelf registration statement for \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants.

In June 2012, we completed a public offering in which we sold 3,500,000 shares of our common stock for \$5.40 per share, and received net proceeds of approximately \$17.5 million after deducting the underwriting discount and other offering expenses. In October 2012, we completed another public offering in which we sold 3,500,000 shares of our common stock for \$5.80 per share, and received net proceeds of approximately \$19.2 million after deducting the underwriting discount and other offering expenses. We used the net proceeds from the offerings to make investments, to repurchase or pay liabilities and for general corporate purposes.

On December 31, 2012, we entered into an At-The-Market (ATM) equity offering sales agreement with JMP Securities LLC (JMP) whereby, in accordance with the terms of the agreement, from time to time we could issue and sell through JMP up to 6,000,000 shares of our common stock. Sales of the shares were made by

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means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, or at negotiated prices. As of March 15, 2013, JMP sold all of the 6,000,000 shares for net proceeds of \$45.6 million.

On February 1, 2013, we completed an underwritten public offering of 1,400,000 shares of 8.25% Series A cumulative redeemable preferred stock generating net proceeds of approximately \$33.6 million after deducting underwriting fees and estimated offering costs. On February 5, 2013, the underwriters exercised a portion of their over-allotment option for 151,500 shares providing additional net proceeds of approximately \$3.7 million. We used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

On March 27, 2013, we completed a public offering in which we sold 5,625,000 shares of our common stock for \$8.00 per share, and received net proceeds of approximately \$43.0 million after deducting the underwriting discount and other offering expenses. We used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes. The underwriters were granted an over-allotment option for 843,750 additional shares which expired in April 2013.

On May 9, 2013, we completed an underwritten public offering of 1,200,000 shares of 7.75% Series B cumulative redeemable preferred stock generating net proceeds of approximately \$28.9 million after deducting underwriting fees and estimated offering costs. On May 15, 2013, the underwriters exercised a portion of their over-allotment option for 60,000 shares providing additional net proceeds of approximately \$1.5 million. We used the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes.

At June 30, 2013 and December 31, 2012, we had 43,136,975 and 31,249,225 common shares outstanding, respectively.

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We also maintain liquidity through three repurchase agreements, three warehousing credit facilities, a revolving credit facility, a note payable and a junior loan participation with eight different financial institutions or companies. In addition, we have issued three collateralized debt obligations or CDOs, two collateralized loan obligations or CLOs and nine separate junior subordinated notes. London inter-bank offered rate, or LIBOR, refers to one-month LIBOR unless specifically stated. As of June 30, 2013, these facilities had aggregate borrowings of approximately \$1.3 billion.

The following is a summary of our debt facilities as of June 30, 2013:

| Debt Facilities | At June 30, 2013 | | | |
|---------------------------------------------------------------------------------------------------------|------------------|---------------------|----------------|----------------|
| | Commitment | Debt Carrying Value | Available | Maturity Dates |
| Repurchase agreements and credit facilities. Interest is variable based on pricing over LIBOR and fixed | \$ 223,039,935 | \$ 101,097,436 | \$ 121,942,499 | 2013 2015 |
| Collateralized debt obligations. Interest is variable based on pricing over three-month LIBOR (1) | 744,105,570 | 744,105,570 | | 2014 2016 |
| Collateralized loan obligations. Interest is variable based on pricing over three-month LIBOR (1) | 264,500,000 | 264,500,000 | | 2016 |
| Junior subordinated notes. Interest is variable based on pricing over three-month LIBOR (2) | 159,025,006 | 159,025,006 | | 2034 2037 |
| Notes payable. Interest is at a fixed rate and variable based on pricing over LIBOR | 51,457,708 | 51,457,708 | | 2013 2016 |
| | \$ 1,442,128,219 | \$ 1,320,185,720 | \$ 121,942,499 | |

(1) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of June 30, 2013.

(2) Represents a total face amount of \$175.9 million less a total deferred amount of \$16.8 million.

These debt facilities are described in further detail in Note 7 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

Repurchase Agreements and Credit Facilities

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In July 2011, we entered into a repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the six months ended June 30, 2013, we financed the purchase of four RMBS investments with this repurchase agreement for a total of \$6.3 million and paid down the total debt by \$18.6 million due to principal paydowns received on the RMBS investments. During the year ended December 31, 2012, we financed the purchase of 17 RMBS investments with this repurchase agreement for a total of \$54.7 million and paid down the total debt by \$45.7 million due to principal paydowns received on the RMBS investments. The total debt balance was \$22.8 million and \$35.1 million at June 30, 2013 and December 31, 2012, respectively. During the six months ended June 30, 2013, we also financed the purchase of six RMBS investments with this repurchase agreement for \$32.4 million, which qualified as linked transactions, and paid down the total debt by \$6.3 million due to the principal paydowns received on the RMBS investments. The linked transactions are presented on a combined basis and reported in other assets on the Consolidated Balance Sheet. During the year ended December 31, 2012, we financed the purchase of six RMBS investments with this repurchase agreement for \$10.1 million, which qualified as linked transactions, and paid down the debt by \$3.4 million due to the principal paydowns received on

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the RMBS investments. The facility generally finances between 60% and 90% of the value of each non-linked and linked investment, has a rolling monthly term, and bears interest at a rate of 125 to 200 basis points over LIBOR. The facility also includes a minimum net worth covenant of \$100.0 million.

In June 2012, we entered into another repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the six months ended June 30, 2013, we financed the purchase of an RMBS investment with this repurchase agreement for \$15.4 million and paid down the total debt by \$0.8 million due to principal paydowns received on the RMBS investments. During the year ended December 31, 2012 we financed the purchase of an RMBS investment for \$0.8 million and paid down the debt by \$0.1 million due to principal paydowns received on the RMBS investment. The total debt balance was \$15.3 million and \$0.7 million at June 30, 2013 and December 31, 2012, respectively. During the six months ended June 30, 2013, we also financed two RMBS investments with this repurchase agreement for \$30.8 million, which qualified as linked transactions, and paid down the total debt by \$5.4 million due to the principal paydowns received on the RMBS investments. During the year ended December 31, 2012, we financed the purchase of six RMBS investments with this repurchase agreement for \$61.2 million, which qualified as linked transactions, and paid down the debt by \$3.3 million due to the principal paydowns received on the RMBS investments. The facility generally finances between 75% and 90% of the value of each non-linked and linked investment, has a rolling monthly term, and bears interest at a rate of 165 to 185 basis points over LIBOR.

In June 2013, we entered into another repurchase agreement with a financial institution to finance the purchase of RMBS investments. During the six months ended June 30, 2013, we financed the purchase of an RMBS investment with this repurchase agreement for \$11.4 million which qualified as a linked transaction, and paid down the debt by \$0.5 million due to principal paydowns received on the RMBS investment. The debt balance was \$10.8 million at June 30, 2013.

In July 2011, we entered into a two year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. In January 2013, we amended the facility, increasing the committed amount to \$75.0 million. In April 2013, the facility was amended to bear interest at a rate of 225 basis points over LIBOR which was originally 275 basis points over LIBOR, required a 0.25% commitment fee, which was originally 1.0%, upon closing, matures in April 2015 with a one year extension option on outstanding advances that requires two 5% paydowns and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by us. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility also has a compensating balance requirement of \$50.0 million to be maintained by us and our affiliates. At June 30, 2013, the outstanding balance of this facility was \$22.5 million.

In February 2013, we entered into a one year, \$50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 250 basis points over LIBOR, requires a 12.5 basis point commitment fee upon closing, matures in February 2014, has warehousing and non-use fees and allows for an original warehousing period of up to 24 months from the initial advance on an asset. The facility also has a maximum advance rate of 75% and contains certain restrictions including partial prepayment of an advance if a loan becomes 90 days past due or in the process of foreclosure, subject to certain conditions. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of \$150.0 million, maximum total liabilities less subordinate debt of \$2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. At June 30, 2013, the outstanding balance of this facility was \$20.5 million.

In June 2013, we entered into a one year, \$40.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties, including a \$10.0 million sublimit to finance retail and office properties. The facility bears interest at a rate of 200 basis points over LIBOR, matures in June 2014, has warehousing fees and allows for an original warehousing period of up to 24 months from the

initial advance on an asset. The facility also has a maximum advance rate of 70% or 75%, depending on the property type, and contains certain restrictions including prepayment of an advance if a loan becomes 60 days past due or in the process of

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foreclosure, subject to certain conditions. The facility also includes various financial covenants including a minimum liquidity requirement of \$20.0 million, minimum tangible net worth of \$150.0 million, as well as a minimum debt service coverage ratio. At June 30, 2013, this facility was not used.

In December 2012, we entered into a \$17.3 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 275 basis points over LIBOR or Prime at our election, required a 1% commitment fee upon closing and had a maturity of December 2017. In January 2013, the facility was repaid in full as part of the issuance of a second CLO.

In June 2012, we entered into a \$12.6 million warehouse facility with a financial institution to finance the first mortgage loan on a multifamily property. The facility bore interest at a rate of 275 basis points over LIBOR or Prime at our election, required a 1% commitment fee upon closing, had a maturity of December 2013 and had a non-use fee. In January 2013, the facility was repaid in full as part of the issuance of a second CLO.

In May 2012, we entered into a \$15.0 million committed revolving line of credit with a one year term maturing in May 2013, which is secured by a portion of the bonds originally issued by our CDO entities that have been repurchased by us. This facility has a 1% commitment fee, a 1% non-use fee and pays interest at a fixed rate of 8% on any drawn portion of the line. The facility also includes a debt service coverage ratio requirement for the posting of collateral. In January 2013, we amended the facility, increasing the committed amount to \$20.0 million and a fixed rate of interest of 8.5% on any drawn portion of the \$20.0 million commitment. The amendment also included a one year extension option upon maturity in May 2013 and required a 1% commitment fee and a 1% non-use fee. In May 2013, we extended the facility to a maturity in May 2014 with a one year extension option and a 1% extension fee, as well as amended the facility to have an 8.5% non-use fee on the first \$5.0 million not borrowed and a 1% non-use fee on the remaining funds not borrowed. If not extended in May 2014, there will be a \$0.1 million fee. At June 30, 2013, the outstanding balance of this facility was \$20.0 million.

CDOs

We completed the formation of three separate CDO entities since 2005 by issuing to third party investors, tranches of investment grade collateralized debt obligations through newly-formed wholly-owned subsidiaries (the Issuers). The Issuers hold assets, consisting primarily of real-estate related assets and cash which serve as collateral for the CDOs. The assets pledged as collateral for the CDOs were contributed from our portfolio of assets. By contributing these real estate assets to the various CDOs, these transactions resulted in a decreased cost of funds relating to the corresponding CDO assets and created capacity in our debt facilities.

The Issuers issued tranches of investment grade floating-rate notes of approximately \$305.0 million, \$356.0 million and \$447.5 million for CDO I, CDO II and CDO III, respectively. CDO III also has a \$100.0 million revolving note which was not drawn upon at the time of issuance. The revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. The tranches were issued with floating rate coupons based on three-month LIBOR plus pricing of 0.44% - 0.77%. Proceeds from the sale of the investment grade tranches issued in CDO I, CDO II and CDO III of \$267.0 million, \$301.0 million and \$317.1 million, respectively, were used to repay higher costing outstanding debt under our repurchase agreements and notes payable. The CDOs could be replenished with substitute collateral for loans that are repaid during the first four years for CDO I and the first five years for CDO II and CDO III, subject to certain customary provisions. Thereafter, the outstanding debt balance is reduced as loans are repaid. Proceeds from the repayment of assets which serve as collateral for the CDOs must be retained in its structure as restricted cash until such collateral can be replaced and therefore are not available to fund current cash needs. If such cash is not used to replenish collateral, it could have a negative impact on our anticipated returns. As of January 15, 2012, CDO III has reached the end of its replenishment date. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in

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accordance with the terms of the CDO. As of April 15, 2011, CDO II reached the end of its replenishment date and will no longer make quarterly amortization payments of \$1.2 million to investors as a reduction of the CDO liability. As of April 15, 2009, CDO I reached the end of its replenishment date and will no longer make quarterly amortization payments of \$2.0 million to investors. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed will be recorded as a reduction of the CDO liability. Our CDO vehicles are VIEs for which we are the primary beneficiary and are consolidated in our Financial Statements.

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In the first quarter of 2013, we purchased, at a discount, a \$7.1 million investment grade rated Class H note originally issued by our CDO III issuing entity for a price of \$3.3 million from a third party investor. We recorded a gain on extinguishment of debt of \$3.8 million from this transaction in our 2013 Consolidated Statement of Operations.

During the three and six months ended June 30, 2012, we purchased, at a discount, \$42.7 million and \$57.2 million, respectively, of investment grade rated Class B, C, D, E, F, G and H notes originally issued by our CDO II and CDO III issuing entities for a price of \$21.7 million and \$30.9 million, respectively, from third party investors. We recorded a net gain on extinguishment of debt of \$21.0 million and \$26.3 million, respectively, from these transactions in our 2012 Consolidated Statement of Operations.

The following table sets forth the face amount and gain on extinguishment of our CDO bonds repurchased in the following periods by bond class:

| Class: | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|--------|-------------------------------------|------|-------------|------|-----------------------------------|------|-------------|------|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | Face Amount | Gain | Face Amount | Gain | Face Amount | Gain | Face Amount | Gain |
| B | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |