

ISTAR INC.
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____
Commission File No. 1-15371

iStar Inc.
(Exact name of registrant as specified in its charter)
Maryland 95-6881527
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)
1114 Avenue of the Americas, 39th Floor
New York, NY 10036
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code: (212) 930-9400

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Non-accelerated filer

Large accelerated filer Accelerated filer (Do not check if a Smaller reporting company
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of November 1, 2016, there were 71,176,420 shares, \$0.001 par value per share, of iStar Inc. common stock outstanding.

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PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Real estate		
Real estate, at cost	\$ 1,779,819	\$ 2,050,541
Less: accumulated depreciation	(405,209)	(456,558)
Real estate, net	1,374,610	1,593,983
Real estate available and held for sale	101,488	137,274
Total real estate	1,476,098	1,731,257
Land and development, net	1,022,106	1,001,963
Loans receivable and other lending investments, net	1,632,186	1,601,985
Other investments	262,496	254,172
Cash and cash equivalents	547,510	711,101
Accrued interest and operating lease income receivable, net	12,720	18,436
Deferred operating lease income receivable, net	94,405	97,421
Deferred expenses and other assets, net	190,493	181,457
Total assets	\$ 5,238,014	\$ 5,597,792
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 204,272	\$ 214,835
Loan participations payable, net	205,781	152,086
Debt obligations, net	3,749,873	4,118,823
Total liabilities	4,159,926	4,485,744
Commitments and contingencies (refer to Note 11)	—	—
Redeemable noncontrolling interests (refer to Note 5)	6,601	10,718
Equity:		
iStar Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference \$25.00 per share (refer to Note 13)	22	22
Convertible Preferred Stock Series J, liquidation preference \$50.00 per share (refer to Note 13)	4	4
Common Stock, \$0.001 par value, 200,000 shares authorized, 71,176 and 81,109 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	71	81
Additional paid-in capital	3,592,710	3,689,330
Retained earnings (deficit)	(2,562,237)	(2,625,474)
Accumulated other comprehensive income (loss) (refer to Note 13)	(5,430)	(4,851)
Total iStar Inc. shareholders' equity	1,025,140	1,059,112
Noncontrolling interests	46,347	42,218
Total equity	1,071,487	1,101,330
Total liabilities and equity	\$ 5,238,014	\$ 5,597,792

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

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iStar Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Operating lease income	\$51,414	\$55,699	\$160,869	\$170,990
Interest income	32,258	33,599	99,877	102,224
Other income	13,442	16,888	35,080	40,214
Land development revenue	31,554	14,301	74,389	29,101
Total revenues	128,668	120,487	370,215	342,529
Costs and expenses:				
Interest expense	55,105	56,880	168,173	167,336
Real estate expense	35,335	35,154	105,078	111,143
Land development cost of sales	22,004	10,686	50,842	22,828
Depreciation and amortization	13,002	15,787	42,184	49,804
General and administrative	19,666	21,181	62,433	62,520
(Recovery of) provision for loan losses	(14,955)	7,500	(12,749)	30,944
Impairment of assets	8,741	3,916	11,753	5,590
Other expense	819	3,334	4,741	6,345
Total costs and expenses	139,717	154,438	432,455	456,510
Income (loss) before earnings from equity method investments and other items	(11,049)	(33,951)	(62,240)	(113,981)
Loss on early extinguishment of debt, net	(36)	(67)	(1,618)	(279)
Earnings from equity method investments	26,540	10,572	74,254	25,904
Income (loss) from continuing operations before income taxes	15,455	(23,446)	10,396	(88,356)
Income tax benefit (expense)	8,256	2,893	9,859	(3,796)
Income (loss) from continuing operations	23,711	(20,553)	20,255	(92,152)
Income from sales of real estate	34,444	26,511	88,387	66,021
Net income (loss)	58,155	5,958	108,642	(26,131)
Net (income) loss attributable to noncontrolling interests	967	706	(6,915)	3,176
Net income (loss) attributable to iStar Inc.	59,122	6,664	101,727	(22,955)
Preferred dividends	(12,830)	(12,830)	(38,490)	(38,490)
Net (income) loss allocable to HPU holders and Participating Security holders ⁽¹⁾⁽²⁾	—	94	(27)	1,627
Net income (loss) allocable to common shareholders	\$46,292	\$(6,072)	\$63,210	\$(59,818)
Per common share data:				
Income (loss) attributable to iStar Inc. from continuing operations:				
Basic	\$0.65	\$(0.07)	\$0.85	\$(0.70)
Diluted	\$0.44	\$(0.07)	\$0.66	\$(0.70)
Net income (loss) attributable to iStar Inc.:				
Basic	\$0.65	\$(0.07)	\$0.85	\$(0.70)
Diluted	\$0.44	\$(0.07)	\$0.66	\$(0.70)
Weighted average number of common shares:				
Basic	71,210	85,766	74,074	85,602
Diluted	115,666	85,766	118,590	85,602

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Per HPU share data⁽¹⁾:

Loss attributable to iStar Inc. from continuing operations - basic and diluted	\$—	\$(13.41)	\$—	\$(132.19)
Net loss attributable to iStar Inc. - basic and diluted	\$—	\$(13.41)	\$—	\$(132.19)
Weighted average number of HPU shares - basic and diluted	—	7	—	12

(1) All of the Company's outstanding High Performance Units ("HPUs") were repurchased and retired on August 13, 2015 (refer to Note 13).

Participating Security holders are non-employee directors who hold common stock equivalents ("CSEs") and (2) restricted stock awards granted under the Company's Long Term Incentive Plans that are eligible to participate in dividends (refer to Note 14 and Note 15).

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

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iStar Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$58,155	\$5,958	\$108,642	\$(26,131)
Other comprehensive income (loss):				
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization ⁽¹⁾	—	—	—	(2,531)
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization ⁽²⁾	112	250	487	600
Unrealized gains/(losses) on available-for-sale securities	(202)	31	263	(607)
Unrealized gains/(losses) on cash flow hedges	249	(765)	(1,070)	(1,566)
Unrealized gains/(losses) on cumulative translation adjustment	(249)	(123)	(259)	(238)
Other comprehensive income (loss)	(90)	(607)	(579)	(4,342)
Comprehensive income (loss)	58,065	5,351	108,063	(30,473)
Comprehensive (income) loss attributable to noncontrolling interests	967	706	(6,915)	3,176
Comprehensive income (loss) attributable to iStar Inc.	\$59,032	\$6,057	\$101,148	\$(27,297)

(1) Reclassified to "Other income" in the Company's consolidated statements of operations.

Reclassified to "Interest expense" in the Company's consolidated statements of operations are \$20 and \$202 for the three and nine months ended September 30, 2016, respectively, and \$132 and \$251 for the three and nine months ended September 30, 2015, respectively. Reclassified to "Earnings from equity method investments" in the

(2) Company's consolidated statements of operations are \$92 and \$285 for the three and nine months ended September 30, 2016, respectively, and \$118 and \$349 for the three and nine months ended September 30, 2015, respectively.

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

iStar Inc.
Consolidated Statements of Changes in Equity
For the Nine Months Ended September 30, 2016 and 2015
(In thousands)
(unaudited)

	iStar Inc. Shareholders' Equity								Total Equity
	Preferred Stock Series J ⁽¹⁾	Preferred Stock HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests		
Balance as of December 31, 2015	\$22	\$ 4	\$—	\$ 81	\$3,689,330	\$(2,625,474)	\$(4,851)	\$ 42,218	\$ 1,101,330
Dividends declared—preferred	—	—	—	—	—	(38,490)	—	—	(38,490)
Issuance of stock/restricted stock unit amortization, net	—	—	—	—	1,675	—	—	—	1,675
Net income (loss) for the period ⁽²⁾	—	—	—	—	—	101,727	—	10,908	112,635
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	(579)	—	(579)
Repurchase of stock	—	—	—	(10)	(98,419)	—	—	—	(98,429)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	124	—	—	—	124
Contributions from noncontrolling interests	—	—	—	—	—	—	—	513	513
Change in noncontrolling interest ⁽³⁾	—	—	—	—	—	—	—	(7,292)	(7,292)
Balance as of September 30, 2016	\$22	\$ 4	\$—	\$ 71	\$3,592,710	\$(2,562,237)	\$(5,430)	\$ 46,347	\$ 1,071,487
Balance as of December 31, 2014	\$22	\$ 4	\$9,800	\$ 85	\$3,744,621	\$(2,556,469)	\$(971)	\$ 51,256	\$ 1,248,348
Dividends declared—preferred	—	—	—	—	—	(38,490)	—	—	(38,490)
Issuance of stock/restricted stock unit amortization, net	—	—	—	—	4,320	—	—	—	4,320
Net income (loss) for the period ⁽²⁾	—	—	—	—	—	(22,955)	—	(445)	(23,400)

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Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(4,342)	—	(4,342)	
Repurchase of stock	—	—	—	(2)	(20,300)	—	(20,302)	
Redemption of HPUs ⁽⁴⁾	—	—	(9,800)	1	15,238	(15,250)	—	(9,811)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	(3,110)	—	—	—	(3,110)
Contributions from noncontrolling interests	—	—	—	—	—						