

ISTAR INC.
Form 10-Q
August 04, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____
Commission File 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 August 2, 2016, there were 71,176,421 shares, \$0.001 par value per share, of iStar Inc. common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I Consolidated Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements:</u>	<u>1</u>
<u>Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	<u>1</u>
<u>Consolidated Statements of Operations (unaudited)—For the three and six months ended June 30, 2016 and 2015</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) (unaudited)—For the three and six months ended June 30, 2016 and 2015</u>	<u>3</u>
<u>Consolidated Statements of Changes in Equity (unaudited)—For the six months ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (unaudited)—For the six months ended June 30, 2016 and 2015</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 4. Controls and Procedures</u>	<u>50</u>
<u>PART II Other Information</u>	<u>51</u>
<u>Item 1. Legal Proceedings</u>	<u>51</u>
<u>Item 1A. Risk Factors</u>	<u>51</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>53</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>53</u>
<u>Item 5. Other Information</u>	<u>53</u>
<u>Item 6. Exhibits</u>	<u>54</u>
<u>SIGNATURES</u>	<u>55</u>

Table of Contents

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Real estate		
Real estate, at cost	\$ 1,862,382	\$ 2,050,541
Less: accumulated depreciation	(426,462)	(456,558)
Real estate, net	1,435,920	1,593,983
Real estate available and held for sale	126,070	137,274
Total real estate	1,561,990	1,731,257
Land and development, net	1,046,013	1,001,963
Loans receivable and other lending investments, net	1,568,439	1,601,985
Other investments	228,756	254,172
Cash and cash equivalents	521,363	711,101
Accrued interest and operating lease income receivable, net	13,999	18,436
Deferred operating lease income receivable, net	95,767	97,421
Deferred expenses and other assets, net	173,070	181,457
Total assets	\$ 5,209,397	\$ 5,597,792
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 212,826	\$ 214,835
Loan participations payable, net	186,854	152,086
Debt obligations, net	3,770,643	4,118,823
Total liabilities	4,170,323	4,485,744
Commitments and contingencies (refer to Note 11)	—	—
Redeemable noncontrolling interests (refer to Note 5)	7,621	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, 71,891 and 81,109 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	72	81
Additional paid-in capital	3,599,335	3,689,330
Retained earnings (deficit)	(2,608,530)	(2,625,474)
Accumulated other comprehensive income (loss) (refer to Note 13)	(5,340)	(4,851)
Total iStar Inc. shareholders' equity	985,563	1,059,112
Noncontrolling interests	45,890	42,218
Total equity	1,031,453	1,101,330
Total liabilities and equity	\$ 5,209,397	\$ 5,597,792

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

Table of Contents

iStar Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Operating lease income	\$54,518	\$56,152	\$109,455	\$115,291
Interest income	34,400	33,729	67,620	68,625
Other income	10,097	12,761	21,637	23,325
Land development revenue	27,888	6,543	42,835	14,801
Total revenues	126,903	109,185	241,547	222,042
Costs and expenses:				
Interest expense	56,047	55,824	113,068	110,456
Real estate expense	35,438	36,355	69,743	75,989
Land development cost of sales	17,262	5,252	28,838	12,142
Depreciation and amortization	14,474	15,516	29,182	34,017
General and administrative	19,665	20,586	42,768	41,340
Provision for loan losses	700	19,151	2,206	23,444
Impairment of assets	3,012	1,674	3,012	1,674
Other expense	3,182	888	3,922	3,011
Total costs and expenses	149,780	155,246	292,739	302,073
Income (loss) before earnings from equity method investments and other items	(22,877)	(46,061)	(51,192)	(80,031)
Loss on early extinguishment of debt, net	(1,457)	(44)	(1,582)	(212)
Earnings from equity method investments	39,447	8,785	47,714	15,332
Income (loss) from continuing operations before income taxes	15,113	(37,320)	(5,060)	(64,911)
Income tax benefit (expense)	1,190	(811)	1,604	(6,688)
Income (loss) from continuing operations	16,303	(38,131)	(3,456)	(71,599)
Income from sales of real estate	43,484	18,355	53,943	39,511
Net income (loss)	59,787	(19,776)	50,487	(32,088)
Net (income) loss attributable to noncontrolling interests	(8,825)	629	(7,883)	2,470
Net income (loss) attributable to iStar Inc.	50,962	(19,147)	42,604	(29,618)
Preferred dividends	(12,830)	(12,830)	(25,660)	(25,660)
Net (income) loss allocable to HPU holders and Participating Security holders ⁽¹⁾⁽²⁾	(20)	1,027	(11)	1,776
Net income (loss) allocable to common shareholders	\$38,112	\$(30,950)	\$16,933	\$(53,502)
Per common share data:				
Income (loss) attributable to iStar Inc. from continuing operations:				
Basic	\$0.52	\$(0.36)	\$0.22	\$(0.63)
Diluted	\$0.37	\$(0.36)	\$0.22	\$(0.63)
Net income (loss) attributable to iStar Inc.:				
Basic	\$0.52	\$(0.36)	\$0.22	\$(0.63)
Diluted	\$0.37	\$(0.36)	\$0.22	\$(0.63)
Weighted average number of common shares:				
Basic	73,984	85,541	75,522	85,519
Diluted	118,510	85,541	104,431	85,519

Edgar Filing: ISTAR INC. - Form 10-Q

Per HPU share data⁽¹⁾:

Income (loss) attributable to iStar Inc. from continuing operations - basic and diluted	\$—	\$(68.47)	\$—	\$(118.40)
Net income (loss) attributable to iStar Inc. - basic and diluted	\$—	\$(68.47)	\$—	\$(118.40)
Weighted average number of HPU shares - basic and diluted	—	15	—	15

(1) All of the Company's outstanding High Performance Units ("HPUs") were repurchased and retired on August 13, 2015 (refer to Note 15).

(2) Participating Security holders are non-employee directors who hold common stock equivalents ("CSEs") and 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.

Table of Contents

iStar Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$59,787	\$(19,776)	\$50,487	\$(32,088)
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⁾	118	200	375	350
Unrealized gains/(losses) on available-for-sale securities	446	(63)	465	(638)
Unrealized gains/(losses) on cash flow hedges	(357)	144	(1,319)	(801)
Unrealized gains/(losses) on cumulative translation adjustment	30	129	(10)	(115)
Other comprehensive income (loss)	237	410	(489)	(3,735)
Comprehensive income (loss)	60,024	(19,366)	49,998	(35,823)
Comprehensive (income) loss attributable to noncontrolling interests	(8,825)	629	(7,883)	2,470
Comprehensive income (loss) attributable to iStar Inc.	\$51,199	\$(18,737)	\$42,115	\$(33,353)

(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 \$23 and \$183 for the three and six months ended June 30, 2016, respectively, and \$84 and \$119 for the three and six months ended

(2) June 30, 2015, respectively. Reclassified to "Earnings from equity method investments" in the Company's consolidated statements of operations are \$95 and \$192 for the three and six months ended June 30, 2016, respectively, and \$116 and \$231 for the three and six months ended June 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 Six Months Ended June 30, 2016 and 2015
(In thousands)
(unaudited)

	iStar Inc. Shareholders' Equity								
	Preferred Stock Series J ⁽¹⁾	Preferred Stock Series K ⁽¹⁾	Preferred HPU's ⁽⁴⁾	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
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	—	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	—	1,371	—	—	—	1,371
Net income (loss) for the period ⁽²⁾	—	—	—	—	—	42,604	—	10,520	53,124
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	(489)	—	(489)
Repurchase of stock	—	—	—	(9)	(91,826)	—	—	—	(91,835)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	460	—	—	—	460
Contributions from noncontrolling interests	—	—	—	—	—	—	—	444	444
Change in noncontrolling interest ⁽³⁾	—	—	—	—	—	—	—	(7,292)	(7,292)
Balance as of June 30, 2016	\$22	\$ 4	\$—	\$ 72	\$3,599,335	\$(2,608,530)	\$(5,340)	\$ 45,890	\$ 1,031,453
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	—	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	—	3,671	—	—	—	3,671
Net income (loss) for the period ⁽²⁾	—	—	—	—	—	(29,618)	—	(710)	(30,328)

Edgar Filing: ISTAR INC. - Form 10-Q

Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(3,735)	—	(3,735)
Repurchase of stock	—	—	—	—	(561)	—	—	(561)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	(3,248)	—	—	(3,248)
Contributions from noncontrolling interests	—	—	—	—	—	—	115	115
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—