

EPR PROPERTIES
Form 10-Q
May 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2013
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 number: 001-13561

EPR PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland 43-1790877
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

909 Walnut Street, Suite 200 64106
Kansas City, Missouri (Zip Code)

Registrant's telephone number, including area code: (816) 472-1700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

At April 29, 2013, there were 47,040,204 common shares outstanding.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

With the exception of historical information, certain statements contained or incorporated by reference herein may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as those pertaining to our acquisition or disposition of properties, our capital resources, future expenditures for development projects, and our results of operations. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of actual events. There is no assurance the events or circumstances reflected in the forward-looking statements will occur. You can identify forward-looking statements by use of words such as "will be," "intend," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "exp," "anticipates," "estimates," "offers," "plans" "would," or other similar expressions or other comparable terms or discussions of strategy, plans or intentions in this Quarterly Report on Form 10-Q. In addition, references to our budgeted amounts and guidance are forward-looking statements.

Factors that could materially and adversely affect us include, but are not limited to, the factors listed below:

• General international, national, regional and local business and economic conditions;

• Continuing volatility in the financial markets;

• Adverse changes in our credit ratings;

• The downgrade of the U.S. Government's credit rating and any future downgrade of the U.S. Government's credit rating;

• Fluctuations in interest rates;

• The duration or outcome of litigation, or other factors outside of the litigation, relating to our significant investment in a planned casino and resort development which may cause the development to be indefinitely delayed or cancelled;

• Defaults in the performance of lease terms by our tenants;

• Defaults by our customers and counterparties on their obligations owed to us;

• A borrower's bankruptcy or default;

• The obsolescence of older multiplex theatres owned by some of our tenants or by any overbuilding of megaplex theatres in their markets;

• Our ability to renew maturing leases with theatre tenants on terms comparable to prior leases and/or our ability to lease any re-claimed space from some of our larger theatres at economically favorable terms;

• Risks of operating in the entertainment industry;

• Our ability to compete effectively;

• A single tenant represents a substantial portion of our lease revenues;

• A single tenant leases or is the mortgagor of a substantial portion of our investments related to metropolitan ski areas and a single tenant leases a significant number of our public charter school properties;

• The ability of our public charter school tenants to comply with their charters and continue to receive funding from local, state and federal governments, the approval by applicable governing authorities of substitute operators to assume control of any failed public charter schools and our ability to negotiate the terms of new leases with such substitute tenants on acceptable terms, and our ability to complete collateral substitutions as applicable;

• Risks associated with use of leverage to acquire properties;

• Financing arrangements that require lump-sum payments;

• Our ability to raise capital;

• Covenants in our debt instruments that limit our ability to take certain actions;

• Risks of acquiring and developing properties and real estate companies;

• The lack of diversification of our investment portfolio;

• Our continued qualification as a real estate investment trust for U.S. federal income tax purposes ("REIT");

• The ability of our subsidiaries to satisfy their obligations;

• Financing arrangements that expose us to funding or purchase risks;

• We have a limited number of employees and the loss of personnel could harm operations;

• Fluctuations in the value of real estate income and investments;

• Risks relating to real estate ownership, leasing and development, for example local conditions such as an

oversupply of space or a reduction in demand for real estate in the area, competition from other available space, whether tenants and users such as customers of our tenants consider a property attractive, changes in real estate taxes and other expenses, changes in market rental rates, the timing and costs associated with property improvements and rentals, changes in taxation or zoning laws or other governmental regulation, whether we are able to pass some or all of any increased operating costs through to tenants, and how well we manage our properties;

Our ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;

Risks involved in joint ventures;

Risks in leasing multi-tenant properties;

A failure to comply with the Americans with Disabilities Act or other laws;

Risks of environmental liability;

Our real estate investments are relatively illiquid;

We own assets in foreign countries;

Risks associated with owning, operating or financing properties for which the tenant's, mortgagor's or our operations may be impacted by weather conditions and climate change;

Risks associated with the ownership of vineyards and wineries;

Risks associated with security breaches and other disruptions;

Our ability to pay dividends in cash or at current rates;

Fluctuations in the market prices for our shares;

Certain limits on changes in control imposed under law and by our Declaration of Trust and Bylaws;

Policy changes obtained without the approval of our shareholders;

Equity issuances could dilute the value of our shares;

Future offerings of debt or equity securities, which may rank senior to our common shares;

Risks associated with changes in the Canadian exchange rate; and

Changes in laws and regulations, including tax laws and regulations.

Our forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission ("SEC") on February 27, 2013.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference herein. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>1</u>
Item 1. Financial Statements	<u>1</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>33</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>44</u>
Item 4. Controls and Procedures	<u>45</u>
<u>PART II</u>	<u>45</u>
Item 1. Legal Proceedings	<u>45</u>
Item 1A. Risk Factors	<u>46</u>
Item 2. Unregistered Sale of Equity Securities and Use of Proceeds	<u>46</u>
Item 3. Defaults Upon Senior Securities	<u>46</u>
Item 4. Mine Safety Disclosures	<u>46</u>
Item 5. Other Information	<u>46</u>
Item 6. Exhibits	<u>47</u>

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EPR PROPERTIES

Consolidated Balance Sheets

(Dollars in thousands except share data)

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Rental properties, net of accumulated depreciation of \$383,332 and \$375,684 at March 31, 2013 and December 31, 2012, respectively	\$1,858,204	\$1,885,093
Rental properties held for sale, net	2,788	2,788
Land held for development	197,740	196,177
Property under development	38,369	29,376
Mortgage notes and related accrued interest receivable	468,557	455,752
Investment in a direct financing lease, net	235,302	234,089
Investment in joint ventures	12,287	11,971
Cash and cash equivalents	11,763	10,664
Restricted cash	32,614	23,991
Deferred financing costs, net	18,708	19,679
Accounts receivable, net	38,246	38,738
Other assets	37,214	38,412
Total assets	\$2,951,792	\$2,946,730
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$47,798	\$65,481
Common dividends payable	37,161	35,165
Preferred dividends payable	5,952	6,021
Unearned rents and interest	19,984	11,333
Long-term debt	1,383,392	1,368,832
Total liabilities	1,494,287	1,486,832
Equity:		
Common Shares, \$.01 par value; 75,000,000 shares authorized; and 48,729,149 and 48,454,181 shares issued at March 31, 2013 and December 31, 2012, respectively	487	484
Preferred Shares, \$.01 par value; 25,000,000 shares authorized:		
5,400,000 Series C convertible shares issued at March 31, 2013 and December 31, 2012; liquidation preference of \$135,000,000	54	54
3,450,000 Series E convertible shares issued at March 31, 2013 and December 31, 2012; liquidation preference of \$86,250,000	35	35
5,000,000 Series F shares issued at March 31, 2013 and December 31, 2012; liquidation preference of \$125,000,000	50	50
Additional paid-in-capital	1,775,166	1,769,227
Treasury shares at cost: 1,690,060 and 1,566,780 common shares at March 31, 2013 and December 31, 2012, respectively	(61,227	) (55,308
Accumulated other comprehensive income	20,114	20,622
Distributions in excess of net income	(277,551	) (275,643
EPR Properties shareholders' equity	1,457,128	1,459,521
Noncontrolling interests	377	377
Equity	\$1,457,505	\$1,459,898
Total liabilities and equity	\$2,951,792	\$2,946,730

See accompanying notes to consolidated financial statements.

1

EPR PROPERTIES

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands except per share data)

	Three Months Ended March 31,	
	2013	2012
Rental revenue	\$60,787	\$57,258
Tenant reimbursements	4,744	4,822
Other income	24	25
Mortgage and other financing income	17,795	14,674
Total revenue	83,350	76,779
Property operating expense	7,005	6,374
Other expense	194	350
General and administrative expense	6,652	6,467
Gain on early extinguishment of debt	(4,539)) —
Interest expense, net	19,989	18,141
Transaction costs	318	158
Impairment charges	—	3,998
Depreciation and amortization	13,438	11,740
Income before equity in income from joint ventures and discontinued operations	40,293	29,551
Equity in income from joint ventures	351	47
Income from continuing operations	\$40,644	\$29,598
Discontinued operations:		
Income (loss) from discontinued operations	(3)	) 355
Impairment charges	—	(8,845)
Gain on sale or acquisition of real estate	565	282
Net income	41,206	21,390
Add: Net income attributable to noncontrolling interests	—	(18)
Net income attributable to EPR Properties	41,206	21,372
Preferred dividend requirements	(5,952)	) (6,001)
Net income available to common shareholders of EPR Properties	\$35,254	\$15,371
Per share data attributable to EPR Properties common shareholders:		
Basic earnings per share data:		
Income from continuing operations	\$0.74	\$0.51
Income (loss) from discontinued operations	0.01	(0.18)
Net income available to common shareholders	\$0.75	\$0.33
Diluted earnings per share data:		
Income from continuing operations	\$0.74	\$0.50
Income (loss) from discontinued operations	0.01	(0.17)
Net income available to common shareholders	\$0.75	\$0.33
Shares used for computation (in thousands):		
Basic	46,854	46,677
Diluted	47,047	46,945

See accompanying notes to consolidated financial statements.

EPR PROPERTIES

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,		
	2013	2012	
Net income	\$41,206	\$21,390	
Other comprehensive income (loss):			
Foreign currency translation adjustment	(3,004	) 2,786
Change in unrealized gain (loss) on derivatives	2,496	(2,488)
Comprehensive income	40,698	21,688	
Comprehensive income attributable to the noncontrolling interests	—	(18)
Comprehensive income attributable to EPR Properties	\$40,698	\$21,670	
See accompanying notes to consolidated financial statements.			

EPR PROPERTIES

Consolidated Statements of Changes in Equity

Three Months Ended March 31, 2013

(Unaudited)

(Dollars in thousands)

	EPR Properties Common Stock		Shareholders' Preferred Stock		Additional paid-in capital	Treasury shares	Accumulated other comprehensive income	Distributions in excess of net income	Noncontrolling Interests	Total
	Shares	Par	Shares	Par						
Balance at December 31, 2012	48,454,181	\$484	13,850,000	\$139	\$1,769,227	\$(55,308)	\$20,622	\$(275,643)	\$377	\$1,459,898
Issuance of nonvested shares, net	196,928	2	—	—	2,588	(3,425)	—	—	—	(835)
Amortization of nonvested shares	—	—	—	—	1,204	—	—	—	—	1,204
Share option expense	—	—	—	—	222	—	—	—	—	222
Foreign currency translation adjustment	—	—	—	—	—	—	(3,004)	—	—	(3,004)
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	2,496	—	—	2,496
Net income	—	—	—	—	—	—	—	41,206	—	41,206
Issuances of common shares	2,641	—	—	—	124	—	—	—	—	124
Stock option exercises, net	75,399	1	—	—	1,801	(2,494)	—	—	—	(692)
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(43,114)	—	(43,114)
Balance at March 31, 2013	48,729,149	\$487	13,850,000	\$139	\$1,775,166	\$(61,227)	\$20,114	\$(277,551)	\$377	\$1,457,505

See accompanying notes to consolidated financial statements.

EPR PROPERTIES

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$41,206	\$21,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on early extinguishment of debt	(4,539)) —
Non-cash impairment charges	—	) 3,998
Loss (income) from discontinued operations	(562)	) 8,208
Equity in income from joint ventures	(351)	) (47)
Distributions from joint ventures	223	) 354
Depreciation and amortization	13,438	) 11,740
Amortization of deferred financing costs	999	) 1,085
Share-based compensation expense to management and Trustees	1,548	) 1,464
Decrease in restricted cash	2,946	) 1,450
Increase in mortgage notes and related accrued interest receivable	(36)	) (13)
Increase in accounts receivable, net	(1,426)	) (232)
Increase in direct financing lease receivable	(1,212)	) (1,256)
Decrease (increase) in other assets	139	) (2,523)
Decrease in accounts payable and accrued liabilities	(10,451)	) (6,768)
Increase (decrease) in unearned rents and interest	(3,072)	) 2,628
Net operating cash provided by continuing operations	38,850	) 41,478
Net operating cash provided by discontinued operations	1,322	) 481
Net cash provided by operating activities	40,172	) 41,959
Investing activities:		
Acquisition of rental properties and other assets	(8,174)	) (31,507)
Investment in unconsolidated joint ventures	(433)	) (442)
Investment in mortgage notes receivable	(12,769)	) (24,451)
Additions to properties under development	(17,719)	) (13,672)
Net cash used by investing activities of continuing operations	(39,095)	) (70,072)
Net proceeds from sale of real estate from discontinued operations	24,146	) 282
Net cash used by investing activities	(14,949)	) (69,790)
Financing activities:		
Proceeds from long-term debt facilities	70,000	) 320,000
Principal payments on long-term debt	(48,950)	) (251,328)
Deferred financing fees paid	(67)	) (1,852)
Net proceeds from issuance of common shares	84	) 56
Impact of stock option exercises, net	(692)	) (480)
Purchase of common shares for treasury	(3,245)	) (3,209)
Dividends paid to shareholders	(41,146)	) (38,681)
Net cash provided (used) by financing activities	(24,016)	) 24,506
Effect of exchange rate changes on cash	(108)	) 174
Net increase (decrease) in cash and cash equivalents	1,099	) (3,151)
Cash and cash equivalents at beginning of the period	10,664	) 14,625
Cash and cash equivalents at end of the period	\$11,763	) \$11,474
Supplemental information continued on next page.		

EPR PROPERTIES

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

Continued from previous page.

	Three Months Ended March 31,	
	2013	2012
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	\$7,151	\$1,038
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	\$9,373	\$6,694
Conversion of equity to mortgage note receivable related to Atlantic-EPR I	\$—	\$14,852
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$29,352	\$21,845
Cash paid during the year for income taxes	\$221	\$197
See accompanying notes to consolidated financial statements.		

EPR PROPERTIES

Notes to Consolidated Financial Statements (Unaudited)

1. Organization

Description of Business

EPR Properties (the Company) is a specialty real estate investment trust (REIT) organized on August 29, 1997 in Maryland. Effective November 12, 2012, the Company updated its name from Entertainment Properties Trust to EPR Properties. The Company develops, owns, leases and finances properties in select market segments primarily related to entertainment, education and recreation. The Company's properties are located in the United States and Canada.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. In addition, operating results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The Company consolidates certain entities if it is deemed to be the primary beneficiary in a variable interest entity (VIE), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic on Consolidation. The Topic on Consolidation requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This topic requires an ongoing reassessment of and eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary and requires enhanced disclosures on variable interest entities. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in the Consolidation Topic of the FASB ASC, or does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

The Company reports its noncontrolling interests as required by the Consolidation Topic of the FASB ASC. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in the subsidiary that are held by owners other than the parent are noncontrolling interests. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of income, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Consolidated statements of changes in shareholders' equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for equity, noncontrolling interests and total equity. The Company does not have any redeemable noncontrolling interests under the scope of the Distinguishing Liabilities from Equity guidance of the FASB ASC.

Edgar Filing: EPR PROPERTIES - Form 10-Q

The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (SEC) on February 27, 2013.

Operating Segments

For financial reporting purposes, the Company groups its investments into four reportable operating segments: entertainment, education, recreation and other. See Note 16 for financial information related to these operating segments.

Rental Properties

Rental properties are carried at cost less accumulated depreciation. Costs incurred for the acquisition and development of the properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 40 years for buildings and 3 to 25 years for furniture, fixtures and equipment. Tenant improvements, including allowances, are depreciated over the shorter of the base term of the lease or the estimated useful life. Expenditures for ordinary maintenance and repairs are charged to operations in the period incurred. Significant renovations and improvements which improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful life.

Management reviews a property for impairment whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based on an estimate of undiscounted future cash flows expected to result from its use and eventual disposition. If impairment exists due to the inability to recover the carrying value of the property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value.

The Company evaluates the held-for-sale classification of its real estate as of the end of each quarter. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value less costs to sell. Assets are generally classified as held for sale once management has initiated an active program to market them for sale and has received a firm purchase commitment that is expected to close within one year. The results of operations of these real estate properties are reflected as discontinued operations in all periods reported. On occasion, the Company will receive unsolicited offers from third parties to buy individual Company properties. Under these circumstances, the Company will classify the properties as held for sale when a sales contract is executed with no contingencies and the prospective buyer has funds at risk to ensure performance.

Allowance for Doubtful Accounts

The Company makes quarterly estimates of the collectability of its accounts receivable related to base rents, tenant escalations (straight-line rents), reimbursements and other revenue or income. The Company specifically analyzes trends in accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. When evaluating customer creditworthiness, management reviews the periodic financial statements for significant tenants and specifically evaluates the strength and material changes in net operating income, coverage ratios, leverage and other factors to assess the tenant's credit quality. In addition, when customers are in bankruptcy, the Company makes estimates of the expected recovery of pre-petition administrative and damage claims. These estimates have a direct impact on the Company's net income.

Revenue Recognition

Rents that are fixed and determinable are recognized on a straight-line basis over the minimum terms of the leases. Base rent escalation on leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. In addition, most of the Company's tenants are subject to additional rents if gross revenues of the properties exceed certain thresholds defined in the lease agreements (percentage rents). Percentage rents as well as participating interest for those mortgage agreements that contain similar such clauses are recognized at the time when specific triggering events occur as provided by the lease or mortgage agreements. Rental revenue included percentage rents of \$0.4 million and \$0.5 million for the three months ended March 31, 2013 and 2012, respectively. Lease termination fees are recognized when the related leases are canceled and the Company has no obligation to provide services to such former tenants. No termination fees were recognized during the three months ended March 31, 2013

and 2012.

Direct financing lease income is recognized on the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent management's initial estimates of fair value of the leased assets at the expiration of the lease, not to exceed original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real

8

estate values. The Company evaluates on an annual basis (or more frequently if necessary) the collectability of its direct financing lease receivable and unguaranteed residual value to determine whether they are impaired. A direct financing lease receivable is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a direct financing lease receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the direct financing lease receivable's effective interest rate or to the fair value of the underlying collateral, less costs to sell, if such receivable is collateralized.

Mortgage Notes and Other Notes Receivable

Mortgage notes and other notes receivable, including related accrued interest receivable, consist of loans originated by the Company and the related accrued and unpaid interest income as of the balance sheet date. Mortgage notes and other notes receivable are initially recorded at the amount advanced to the borrower and the Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them over the term of the related loan. Interest income on performing loans is accrued as earned. The Company evaluates the collectability of both interest and principal of each of its loans to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, the Company determines that it is probable that it will be unable to collect all amounts due according to the existing contractual terms. An insignificant delay or shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. When a loan is considered to be impaired, the amount of loss, if any, is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or to the fair value of the Company's interest in the underlying collateral, less costs to sell, if the loan is collateral dependent. For impaired loans, interest income is recognized on a cash basis, unless the Company determines based on the loan to estimated fair value ratio the loan should be on the cost recovery method, and any cash payments received would then be reflected as a reduction of principal. Interest income recognition is recommenced if and when the impaired loan becomes contractually current and performance is demonstrated to be resumed.

Concentrations of Risk

American Multi-Cinema, Inc. (AMC) was the lessee of a substantial portion (31%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at March 31, 2013 as a result of a series of sale leaseback transactions pertaining to AMC megaplex theatres. A substantial portion of the Company's total revenues (approximately \$21.6 million or 26% and \$25.7 million or 33%, for the three months ended March 31, 2013 and 2012, respectively) result from the revenue from AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC's obligations under the leases. On August 30, 2012, Dalian Wanda Group Co., Ltd. (Wanda) announced that it completed its acquisition of AMC Entertainment Holdings, Inc., the parent of AMCE (AMCE Holdings), in a transaction valued at \$2.7 billion. Upon completion of the acquisition, AMCE Holdings became a wholly-owned subsidiary of Wanda and transitioned their year-end to a calendar year-end as of December 31, 2012. AMCE publicly reported total assets of \$4.3 billion and \$3.6 billion and total stockholders' equity of \$774.1 million and \$154.3 million at December 31, 2012 and March 29, 2012, respectively. Additionally, AMCE publicly reported total liabilities of \$3.5 billion at both December 31, 2012 and March 29, 2012. AMCE publicly reported net earnings of \$57.3 million for the transition period beginning on March 30, 2012 and ending December 31, 2012, a net loss of \$82.0 million for the fifty-two weeks ended March 29, 2012 and a net loss of \$122.9 million for the fifty-two weeks ended March 31, 2011. AMCE has publicly held debt and the foregoing financial information was reported in its consolidated financial information which is publicly available.

For the three months ended March 31, 2013 and 2012, approximately \$10.7 million or 12.8%, and \$10.9 million or 14%, respectively, of total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada. The Company's wholly owned subsidiaries that hold the four Canadian entertainment retail centers and third-party debt represent approximately \$144.7 million or 10%, and \$147.3 million or 10%, of the Company's net assets as of March 31, 2013 and December 31, 2012, respectively.

Share-Based Compensation

Share-based compensation to employees of the Company is granted pursuant to the Company's Annual Incentive Program and Long-Term Incentive Plan. Share-based compensation to non-employee Trustees of the Company is

9

granted pursuant to the Company's Trustee compensation program and shares are issued under the 2007 Equity Incentive Plan.

Share based compensation expense consists of share option expense, amortization of nonvested share grants, and amortization of share units issued to non-employee Trustees for payment of their annual retainers. Share based compensation is included in general and administrative expense in the accompanying consolidated statements of income, and totaled \$1.5 million for both the three months ended March 31, 2013 and 2012.

Share Options

Share options are granted to employees pursuant to the Long-Term Incentive Plan and to non-employee Trustees for their service to the Company. The fair value of share options granted is estimated at the date of grant using the Black-Scholes option pricing model. Share options granted to employees vest over a period of four years and share option expense for these options is recognized on a straight-line basis over the vesting period. Share options granted to non-employee Trustees vest immediately but may not be exercised for a period of one year from the grant date. Share option expense for non-employee Trustees is recognized on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to share options was \$222 thousand and \$256 thousand for the three months ended March 31, 2013 and 2012, respectively.

Nonvested Shares Issued to Employees

The Company grants nonvested shares to employees pursuant to both the Annual Incentive Program and the Long-Term Incentive Plan. The Company amortizes the expense related to the nonvested shares awarded to employees under the Long-Term Incentive Plan and the premium awarded under the nonvested share alternative of the Annual Incentive Program on a straight-line basis over the future vesting period (three to four years). Total expense recognized related to all nonvested shares was \$1.2 million and \$1.1 million for the three months ended March 31, 2013 and 2012, respectively.

Restricted Share Units Issued to Non-Employee Trustees

The Company issues restricted share units to non-employee Trustees for payment of their annual retainers. The fair value of the share units granted was based on the share price at the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. This expense is amortized by the Company on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to shares issued to non-employee Trustees was \$122 thousand, and \$126 thousand for the three months ended March 31, 2013 and 2012, respectively.

Derivative Instruments

The Company has acquired certain derivative instruments to reduce exposure to fluctuations in foreign currency exchange rates and variable interest rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These derivatives consist of foreign currency forward contracts, cross currency swaps and interest rate swaps.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument

with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company has made an accounting policy election under FASB ASU 2011-04 (Amendments to ASC 820) to use the exception in ASC 820-10-35-18D (commonly referred to as the “portfolio exception”) with respect to measuring counterparty credit risk for derivative instruments, consistent with the guidance in ASC 820-10-35-18G. The Company further documents that it meets the criteria for the exception in ASC 820-10-35-18E.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current period presentation primarily for asset groups that qualify for presentation as discontinued operations.

3. Rental Properties

The following table summarizes the carrying amounts of rental properties as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Buildings and improvements	\$1,724,248	\$1,734,300
Furniture, fixtures & equipment	29,839	34,028
Land	487,449	492,449
	2,241,536	2,260,777
Accumulated depreciation	(383,332	) (375,684
Total	\$1,858,204	\$1,885,093

Depreciation expense on rental properties was \$12.6 million and \$11.0 million for the three months ended March 31, 2013 and 2012, respectively.

4. Investments and Dispositions

The Company's investment spending during the three months ended March 31, 2013 totaled approximately \$38.7 million, and included investments in each of its four operating segments.

Entertainment investment spending during the three months ended March 31, 2013 totaled \$14.7 million, and related primarily to investments in build-to-suit construction of six megaplex theatres and one family entertainment center that are subject to long-term triple net leases or long-term mortgage agreements.

Education investment spending during the three months ended March 31, 2013 totaled \$15.1 million, and related to investments in build-to-suit construction of five public charter schools and an acquisition of an early childhood education center located in Peoria, Arizona that are subject to long-term triple net leases or long-term mortgage agreements.

Recreation investment spending during the three months ended March 31, 2013 totaled \$7.4 million, and related to fundings under the Company's mortgage notes for improvements at existing ski and water-park properties. In addition, the Company's recreation investment spending related to build-to-suit construction of three TopGolf golf entertainment facilities, as well as funding improvements at the Company's ski property located in Maryland.

Other investment spending during the three months ended March 31, 2013 totaled \$1.5 million and related to the land held for development in Sullivan County, New York.

On March 18, 2013, the Company sold a winery and a portion of related vineyards located in Sonoma County, California for proceeds of \$24.1 million and recognized a gain of \$0.6 million during the three months ended March 31, 2013.

Additionally, during the three months ended March 31, 2013, the Company extended its mortgage loan agreement with Peak Resorts, Inc. from April 1, 2013 to April 1, 2016. The loan is secured by 696 acres of development land at Mt. Snow.

5. Accounts Receivable, Net

The following table summarizes the carrying amounts of accounts receivable, net as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Receivable from tenants	\$9,274	\$9,379
Receivable from non-tenants	484	1,527
Receivable from Canada Revenue Agency	996	793
Straight-line rent receivable	31,796	30,891
Allowance for doubtful accounts	(4,304	) (3,852
Total	\$38,246	\$38,738

6. Investment in a Direct Financing Lease

The Company's investment in a direct financing lease relates to the Company's master lease of 26 public charter school properties as of March 31, 2013 and December 31, 2012, with affiliates of Imagine Schools, Inc. (Imagine).

Investment in a direct financing lease, net represents estimated unguaranteed residual values of leased assets and net unpaid rentals, less related deferred income. The following table summarizes the carrying amounts of investment in a direct financing lease, net as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Total minimum lease payments receivable	\$642,798	\$648,632
Estimated unguaranteed residual value of leased assets	211,944	211,944
Less deferred income ⁽¹⁾	(619,440	) (626,487
Investment in a direct financing lease, net	\$235,302	\$234,089

⁽¹⁾ Deferred income is net of \$1.7 million of initial direct costs at March 31, 2013 and December 31, 2012, respectively.

Additionally, the Company has determined that no allowance for losses was necessary at March 31, 2013 and December 31, 2012.

The Company's direct financing lease has expiration dates ranging from approximately 19 to 22 years. Future minimum rentals receivable on this direct financing lease at March 31, 2013 are as follows (in thousands):

Year:	Amount
2013	\$17,742
2014	24,283
2015	25,011
2016	25,762
2017	26,535
Thereafter	523,465
Total	\$642,798

7. Unconsolidated Real Estate Joint Ventures

At March 31, 2013, the Company had a 44.4% and 30.7% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively. The Company accounts for its investment in these joint ventures under the equity method of accounting.

The Company recognized income of \$183 thousand and \$49 thousand during the three months ended March 31, 2013 and 2012, respectively, from its equity investments in the Atlantic-EPR I and Atlantic-EPR II joint ventures. The Company also received distributions from Atlantic-EPR I and Atlantic-EPR II of \$223 thousand and \$354 thousand on its equity investment during the three months ended March 31, 2013 and 2012, respectively. Condensed consolidated financial information for Atlantic-EPR I and Atlantic-EPR II is as follows as of and for the three months ended March 31, 2013 and 2012 (in thousands):

	2013	2012
Rental properties, net	\$45,219	\$46,324
Cash	281	1,397
Mortgage note payable (1)	11,720	12,126
Mortgage note payable to EPR Properties (2)	19,244	14,852
Partners' equity	18,594	19,127
Rental revenue	1,448	1,400
Net income	520	348

(1) Atlantic-EPR II mortgage note payable is due September 1, 2013

(2) Atlantic-EPR I mortgage note payable to EPR Properties is due January 31, 2018

The partnership agreements for Atlantic-EPR I and Atlantic-EPR II allow the Company's partner, Atlantic of Hamburg, Germany (Atlantic), to exchange up to a maximum of 10% of its ownership interest per year in each of the joint ventures for common shares of the Company or, at the Company's discretion, the cash value of those shares as defined in each of the partnership agreements. During 2012, the Company paid Atlantic cash of \$1.3 million and \$490 thousand in exchange for additional ownership of 6.0% and 3.8% for Atlantic-EPR I and Atlantic-EPR II, respectively. During 2013, the Company has paid Atlantic cash of \$463 thousand and \$158 thousand in exchange for additional ownership of 2.3% and 1.1% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of March 31, 2013 and December 31, 2012, the Company had invested \$4.9 million and \$4.7 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. The Company recognized income of \$168 thousand and a loss of \$2 thousand from its investment in these joint ventures for the three months ended March 31, 2013 and 2012, respectively.

8. Long-Term Debt

On March 4, 2013, the Company entered into a Discounted Payoff and Settlement Agreement (the Agreement) regarding one of its loan agreements secured by a theatre property located in Omaha, Nebraska. Pursuant to the Agreement, the Company made a cash payment of \$9.7 million that included a forfeited restricted cash account with a balance of \$1.2 million in full satisfaction of the loan. Accordingly, the Company recorded a gain on early extinguishment of debt of \$4.5 million during the three months ended March 31, 2013.

On March 5, 2013, the Company added to its unsecured term loan facility, increasing the size of the facility from \$240.0 million to \$255.0 million. The loan matures on January 5, 2017 and bears interest based on a grid related to the Company's senior unsecured credit ratings, which at closing was LIBOR plus 175 basis points. The net proceeds from this increased term loan facility were primarily utilized to pay down the Company's unsecured revolving credit facility. At March 31, 2013, the Company had \$59.0 million debt outstanding under its \$400.0 million unsecured

revolving credit facility.

13

9. Variable Interest Entities

The Company's variable interest in VIEs currently are in the form of equity ownership and loans provided by the Company to a VIE or other partner. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, and level of economic disproportionality between the Company and the other partner(s).

Consolidated VIEs

As of March 31, 2013, the Company has invested in one 50% joint venture which is a VIE. This joint venture did not have any significant assets and liabilities at March 31, 2013 and was established to explore certain investment opportunities.

Unconsolidated VIE

At March 31, 2013, the Company's recorded investment in SVVI, a VIE that is unconsolidated, was \$180.6 million. The Company's maximum exposure to loss associated with SVVI is limited to the Company's outstanding mortgage note and related accrued interest receivable of \$180.6 million.

While this entity is a VIE, the Company has determined that the power to direct the activities of the VIE that most significantly impact the VIE's economic performance is not held by the Company. Additionally, the Company does not have the right to receive benefits (beyond its interest payments per the note agreement) and does not have the obligation to absorb losses of SVVI, as its equity at risk is limited to the amount invested in the note.

10. Derivative Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to the effect of changes in foreign currency exchange rates and interest rates on its LIBOR based borrowings. The Company limits this risk by following established risk management policies and procedures including the use of derivatives. The Company's objective in using derivatives is to add stability to reported earnings and to manage its exposure to foreign exchange and interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps, cross currency swaps and foreign currency forwards.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements on its LIBOR based borrowings. To accomplish this objective, the Company currently uses interest rate swaps as its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

On January 5, 2012, the Company entered into three interest rate swap agreements to fix the interest rate on a \$240.0 million unsecured term loan facility that closed on the same day. These agreements have a combined outstanding notional amount of \$240.0 million, a termination date of January 5, 2016 and a fixed rate of 2.66%.

The effective portion of changes in the fair value of interest rate derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2013 and 2012, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge

ineffectiveness on cash flow hedges was recognized during the three months ended March 31, 2013 and 2012.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. As of March 31, 2013, the Company estimates that during the twelve months ending March 31, 2014, \$1.6 million will be reclassified from AOCI to interest expense.

Cash Flow Hedges of Foreign Exchange Risk

The Company is exposed to foreign currency exchange risk against its functional currency, the U.S. dollar, on its four Canadian properties. The Company uses cross currency swaps and foreign currency forwards to mitigate its exposure to fluctuations in the CAD to U.S. dollar exchange rate on its Canadian properties. These foreign currency derivatives should hedge a significant portion of the Company's expected CAD denominated cash flow of the Canadian properties through February 2014 as their impact on the Company's cash flow when settled should move in the opposite direction of the exchange rates utilized to translate revenues and expenses of these properties.

At March 31, 2013, the Company's cross-currency swaps had a fixed original notional value of \$76.0 million CAD and \$71.5 million U.S. The net effect of these swaps is to lock in an exchange rate of \$1.05 CAD per U.S. dollar on approximately \$13.0 million of annual CAD denominated cash flows on the properties through February 2014.

The Company entered into foreign currency forward agreements to further hedge the currency fluctuations related to the cash flows of these properties. The agreements settled or settle at the end of each month from January to December 2013. These agreements lock in an exchange rate of \$0.98 CAD to \$0.99 CAD per U.S. dollar on approximately \$500 thousand of monthly CAD denominated cash flows.

The effective portion of changes in the fair value of foreign currency derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in AOCI and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative, as well as amounts excluded from the assessment of hedge effectiveness, is recognized directly in earnings. No hedge ineffectiveness on foreign currency derivatives has been recognized for the three months ended March 31, 2013 and 2012. As of March 31, 2013, the Company estimates that during the twelve months ending March 31, 2014, \$0.3 million will be reclassified from AOCI to other expense.

Net Investment Hedges

As discussed above, the Company is exposed to fluctuations in foreign exchange rates on its four Canadian properties. As such, the Company uses currency forward agreements to hedge its exposure to changes in foreign exchange rates. Currency forward agreements involve fixing the CAD to U.S. dollar exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward agreements are typically cash settled in US dollars for their fair value at or close to their settlement date. In order to hedge the net investment in four of the Canadian properties, the Company entered into a forward contract with a fixed notional value of \$100.0 million CAD and \$96.1 million U.S. with a February 2014 settlement which coincides with the maturity of the Company's underlying mortgage on these four properties. The exchange rate of this forward contract is approximately \$1.04 CAD per U.S. dollar. This forward contract should hedge a significant portion of the Company's CAD denominated net investment in these four centers through February 2014 as the impact on AOCI from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of these four Canadian properties.

For foreign currency derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in AOCI as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on net investment hedges has been recognized for three months ended March 31, 2013 and 2012. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 11 for disclosure relating to the fair value of the Company's derivative instruments. Below is a summary of the effect of derivative instruments on the consolidated statements of changes in equity and income for the three

months ended March 31, 2013 and 2012.

15

Effect of Derivative Instruments on the Consolidated Statements of Changes in Equity and Income for the Three Months Ended March 31, 2013 and 2012

(Dollars in thousands)

Description	Three Months Ended March 31,	
	2013	2012
Interest Rate Swaps		
Amount of Loss Recognized in AOCI on Derivative (Effective Portion)	\$(206	) \$(1,366
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion)	(423	) (372
(1)		
Cross Currency Swaps		
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	291	(521
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion)	(102	) (167
(2)		
Currency Forward Agreements		
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	1,935	(1,140
Amount of Income Reclassified from AOCI into Earnings (Effective Portion)	49	—
(2)		
Total		
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	\$2,020	\$(3,027
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion)	(476	) (539

(1) Included in "Interest expense, net" in the accompanying consolidated statements of income for the three months ended March 31, 2013 and 2012.

(2) Included in "Other expense" in the accompanying consolidated statements of income for the three months ended March 31, 2013 and 2012.

Credit-risk-related Contingent Features

The Company has agreements with each of its interest rate derivative counterparties that contain a provision where if the Company defaults on any of its obligations for borrowed money or credit in an amount exceeding \$25.0 million and such default is not waived or cured within a specified period of time, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its interest rate derivative obligations.

As of March 31, 2013, the fair value of the Company's derivatives in a liability position related to these agreements was \$5.5 million. If the Company breached any of the contractual provisions of the derivative contracts, it would be required to settle its obligations under the agreements at their termination value of \$5.6 million.

11. Fair Value Disclosures

The Company has certain financial instruments that are required to be measured under the FASB's Fair Value Measurements and Disclosures guidance. The Company currently does not have any non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, the FASB's Fair Value Measurements and Disclosures guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs utilize quoted prices

(unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Derivative Financial Instruments

The Company uses interest rate swaps, foreign currency forwards and cross currency swaps to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives also utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of March 31, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives and therefore, has classified its derivatives as Level 2 within the fair value reporting hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 aggregated by the level in the fair value hierarchy within which those measurements are classified and by derivative type.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2013 and December 31, 2012
(Dollars in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at end of period
March 31, 2013:				
Cross Currency Swaps*	\$—	\$ (316)	) \$—	\$ (316)
Currency Forward Agreements*	\$—	\$ (1,566)	) \$—	\$ (1,566)
Interest Rate Swap Agreements*	\$—	\$ (3,632)	) \$—	\$ (3,632)
December 31, 2012:				
Cross Currency Swaps*	\$—	\$ (709)	) \$—	\$ (709)
Currency Forward Agreements*	\$—	\$ (3,453)	) \$—	\$ (3,453)

Edgar Filing: EPR PROPERTIES - Form 10-Q

Interest Rate Swap Agreements* \$— \$(3,848) \$— \$(3,848)

*Included in "Accounts payable and accrued liabilities" in the accompanying consolidated balance sheet.

17

Non-recurring fair value measurements

There were no assets or liabilities measured at fair value on a non-recurring basis during the three months ended March 31, 2013.

Fair Value of Financial Instruments

Management compares the carrying value and the estimated fair value of the Company's financial instruments. The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments at March 31, 2013 and December 31, 2012:

Mortgage notes receivable and related accrued interest receivable:

The fair value of the Company's mortgage notes and related accrued interest receivable is estimated by discounting the future cash flows of each instrument using current market rates. At March 31, 2013, the Company had a carrying value of \$468.6 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.98%. The fixed rate mortgage notes bear interest at rates of 7.00% to 11.31%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of 9.00% to 11.31%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately \$445.6 million with an estimated weighted average market rate of 10.07% at March 31, 2013.

At December 31, 2012, the Company had a carrying value of \$455.8 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.96%. The fixed rate mortgage notes bear interest at rates of 7.00% to 11.31%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of 9.00% to 11.31%, management estimates the fair value of the fixed rate mortgage notes receivable to be \$431.2 million with an estimated weighted average market rate of 10.07% at December 31, 2012.

Investment in a direct financing lease, net:

The fair value of the Company's investment in a direct financing lease is estimated by discounting the future cash flows of the instrument using current market rates. At March 31, 2013 and December 31, 2012, the Company had an investment in a direct financing lease with a carrying value of \$235.3 million and \$234.1 million, respectively, and a weighted average effective interest rate of 12.02% for both periods. The investment in direct financing lease bears interest at effective interest rates of 11.93% to 12.38%. The carrying value of the investment in a direct financing lease approximates the fair market value at March 31, 2013 and December 31, 2012.

Derivative instruments:

Derivative instruments are carried at their fair market value.

Debt instruments:

The fair value of the Company's debt is estimated by discounting the future cash flows of each instrument using current market rates. At March 31, 2013, the Company had a carrying value of \$324.6 million in variable rate debt outstanding with a weighted average interest rate of approximately 1.87%. The carrying value of the variable rate debt outstanding approximates the fair market value at March 31, 2013.

At December 31, 2012, the Company had a carrying value of \$289.6 million in variable rate debt outstanding with an average weighted interest rate of approximately 1.88%. The carrying value of the variable rate debt outstanding approximates the fair market value at December 31, 2012.

At March 31, 2013 and December 31, 2012, \$240.0 million of variable rate debt outstanding under the Company's unsecured term loan facility had been effectively converted to a fixed rate through January 5, 2016 by interest rate

swap agreements.

At March 31, 2013, the Company had a carrying value of \$1.06 billion in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 6.36%. Discounting the future cash flows for fixed rate

18

debt using rates of 2.89% to 4.39%, management estimates the fair value of the fixed rate debt to be approximately \$1.18 billion with an estimated weighted average market rate of 3.83% at March 31, 2013.

At December 31, 2012, the Company had a carrying value of \$1.08 billion in fixed rate long-term debt outstanding with an average weighted interest rate of approximately 6.35%. Discounting the future cash flows for fixed rate debt using rates of 3.41% to 5.17%, management estimates the fair value of the fixed rate debt to be approximately \$1.17 billion with an estimated weighted average market rate of 4.46% at December 31, 2012.

12. Earnings Per Share

The following table summarizes the Company's computation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2013 and 2012 (amounts in thousands except per share information):

	Three Months Ended March 31, 2013		
	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:			
Income from continuing operations	\$40,644		
Less: preferred dividend requirements	(5,952))	
Income from continuing operations available to common shareholders	\$34,692	46,854	\$0.74
Income from discontinued operations available to common shareholders	\$562	46,854	\$0.01
Net income available to common shareholders	\$35,254	46,854	\$0.75
Diluted EPS:			
Income from continuing operations available to common shareholders	\$34,692	46,854	
Effect of dilutive securities:			
Share options	—	193	
Income from continuing operations available to common shareholders	\$34,692	47,047	\$0.74
Income from discontinued operations available to common shareholders	\$562	47,047	\$0.01
Net income available to common shareholders	\$35,254	47,047	\$0.75

	Three Months Ended March 31, 2012		
	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:			
Income from continuing operations	\$29,598		
Less: preferred dividend requirements	(6,001)	
Noncontrolling interest adjustments	(18)	
Income from continuing operations available to common shareholders	\$23,579	46,677	\$0.51
Loss from discontinued operations available to common shareholders	\$(8,208	) 46,677	\$(0.18
Net income available to common shareholders	\$15,371	46,677	\$0.33
Diluted EPS:			
Income from continuing operations available to common shareholders	\$23,579	46,677	
Effect of dilutive securities:			
Share options	—	268	
Income from continuing operations available to common shareholders	\$23,579	46,945	\$0.50
Loss from discontinued operations available to common shareholders	\$(8,208	) 46,945	\$(0.17
Net income available to common shareholders	\$15,371	46,945	\$0.33

The additional 1.9 million common shares that would result from the conversion of the Company's 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of the Company's 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012 because the effect is anti-dilutive.

The dilutive effect of potential common shares from the exercise of share options is included in diluted earnings per share for the three months ended March 31, 2013 and 2012. However, options to purchase 358 thousand and 342 thousand shares of common shares at per share prices ranging from \$45.20 to \$65.50 and \$44.98 to \$65.50, were outstanding at the end of the three months ended March 31, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

13. Equity Incentive Plan

All grants of common shares and options to purchase common shares are issued under the Company's 2007 Equity Incentive Plan and an aggregate of 1,950,000 common shares, options to purchase common shares and restricted share units, subject to adjustment in the event of certain capital events, may be granted. At March 31, 2013, there were 267,658 shares available for grant under the 2007 Equity Incentive Plan.

Share Options

Share options granted under the 2007 Equity Incentive Plan have exercise prices equal to the fair market value of a common share at the date of grant. The options may be granted for any reasonable term, not to exceed 10 years, and for employees typically become exercisable at a rate of 25% per year over a four-year period. For non-employee Trustees, share options are vested upon issuance, however, the share options may not be exercised for a one year period subsequent to the grant date. The Company generally issues new common shares upon option exercise. A summary of the Company's share option activity and related information is as follows:

	Number of shares	Option price per share		Weighted avg. exercise price
Outstanding at December 31, 2012	881,338	\$ 18.18	— \$65.50	\$38.51
Exercised	(75,399	) 18.18	— 47.20	23.89
Granted	107,757	46.86	— 47.21	47.15
Forfeited	(2,658	) 36.56	— 46.69	43.65
Outstanding at March 31, 2013	911,038	\$ 18.18	— \$65.50	\$40.72

The weighted average fair value of options granted was \$12.05 and \$11.98 during the three months ended March 31, 2013 and 2012, respectively. The intrinsic value of stock options exercised was \$1.9 million and \$1.3 million, during the three months ended March 31, 2013 and 2012, respectively. Additionally, the Company repurchased 50,583 shares into treasury shares in conjunction with the stock options exercised during the three months ended March 31, 2013 with a total value of \$2.5 million. At March 31, 2013, stock-option expense to be recognized in future periods was \$2.3 million.

The expense related to share options included in the determination of net income for the three months ended March 31, 2013 and 2012 was \$222 thousand and \$256 thousand, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates: risk-free interest rate of 1.0% and 1.1% to 1.2% for the three months ended March 31, 2013 and 2012, respectively, dividend yield of 6.5% for the three months ended March 31, 2013 and 6.4% to 6.6% for the three months ended March 31, 2012, volatility factors in the expected market price of the Company's common shares of 50.7% for the three months ended March 31, 2013 and 50.6% to 51.8% for the three months ended March 31, 2012, 0.23% and 0.25% expected forfeiture rate for the three months ended March 31, 2013 and 2012, respectively, and an expected life of approximately six years for both the three months ended March 31, 2013 and 2012. The Company uses historical data to estimate the expected life of the option and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Additionally, expected volatility is computed based on the average historical volatility of the Company's publicly traded shares. The following table summarizes outstanding options at March 31, 2013:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
\$ 18.18 - 19.99	206,505	5.9		
20.00 - 29.99	3,333	0.1		
30.00 - 39.99	75,305	2.9		
40.00 - 49.99	512,542	6.4		
50.00 - 59.99	10,000	5.1		
60.00 - 65.50	103,353	3.8		
	911,038	5.7	\$40.72	\$11,591

The following table summarizes exercisable options at March 31, 2013:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
\$ 18.18 - 19.99	194,005	5.8		
20.00 - 29.99	3,333	0.1		
30.00 - 39.99	66,784	2.4		
40.00 - 49.99	291,204	4.3		
50.00 - 59.99	10,000	5.1		
60.00 - 65.50	103,353	3.8		
	668,679	4.5	\$39.28	\$9,812

Nonvested Shares

A summary of the Company's nonvested share activity and related information is as follows:

	Number of shares	Weighted avg. grant date fair value	Weighted avg. life remaining
Outstanding at December 31, 2012	322,808	\$42.52	
Granted	198,833	47.15	
Vested	(145,570	) 39.88	
Forfeited	(4,207	) 45.39	
Outstanding at March 31, 2013	371,864	\$46.00	1.74

The holders of nonvested shares have voting rights and receive dividends from the date of grant. These shares vest ratably over a period of three to four years. The fair value of the nonvested shares that vested was \$6.7 million and \$7.5 million for the three months ended March 31, 2013 and 2012, respectively. At March 31, 2013, unamortized share-based compensation expense related to nonvested shares was \$11.9 million.

Restricted Share Units

A summary of the Company's restricted share unit activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Life Remaining
Outstanding at December 31, 2012	10,925	\$44.62	
Granted	—	—	
Vested	—	—	
Outstanding at March 31, 2013	10,925	\$44.62	0.10

The holders of restricted share units receive dividend equivalents from the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. At March 31, 2013, unamortized share-based compensation expense related to restricted share units was \$41 thousand.

14. Discontinued Operations

Included in discontinued operations for the three months ended March 31, 2013 are the operations of the Pope Valley winery, which was held for sale as of March 31, 2013, as well as the operations of a winery and a portion of related vineyards located in Sonoma County, California that was sold on March 18, 2013 for a gain of \$0.6 million. Included in discontinued operations for the three months ended March 31, 2012 are the operations of the prior mentioned properties as well as a gain on sale or acquisition of real estate of \$0.3 million that relates to the settlement of escrow reserves established with the sale of Toronto Dundas Square as well as the operations of the Carneros custom crush facility and the Buena Vista winery and vineyards, which were both sold during 2012.

The operating results relating to discontinued operations are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Rental revenue	\$347	\$1,025
Mortgage and other financing income	—	67
Total revenue	347	1,092
Property operating expense	21	(195
Other expense	22	226
Interest expense, net	—	(11
Impairment charges	—	8,845
Depreciation and amortization	307	717
Loss before gain on sale or acquisition of real estate	(3	) (8,490
Gain on sale or acquisition of real estate	565	282
Net income (loss)	\$562	\$(8,208

15 . Other Commitments and Contingencies

As of March 31, 2013, the Company had fourteen entertainment development projects under construction or under redevelopment for which it has commitments to fund approximately \$65.3 million, four education development project under construction for which it has commitments to fund approximately \$17.7 million and two recreation development projects under construction for which it has commitments to fund approximately \$13.3 million. Development costs are advanced by the Company in periodic draws. If the Company determines that construction is not being completed in accordance with the terms of the development agreement, it can discontinue funding construction draws. The Company has agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

The Company has certain commitments related to its mortgage note investments that it may be required to fund in the future. The Company is generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of March 31, 2013, the Company had 11 mortgage notes receivable with commitments totaling approximately \$38.3 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

The Company has provided guarantees of the payment of certain economic development revenue bonds totaling \$34.8 million related to four theatres in Louisiana for which the Company earns a fee at annual rates of 1.75% to 4.00% over the 30-year terms of the related bonds. The Company has recorded \$11.2 million as a deferred asset included in other assets and \$11.2 million included in other liabilities in the accompanying consolidated balance sheet as of March 31, 2013 related to these guarantees. No amounts have been accrued as a loss contingency related to these guarantees because payment by the Company is not probable.

On June 7, 2011, affiliates of Louis Cappelli, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC (the "Cappelli Group"), filed a complaint with the Supreme Court of the State of New York, County of Sullivan, against two subsidiaries of the Company seeking (i) a declaratory judgment on certain of one of the subsidiary's obligations under a previously disclosed settlement agreement involving these entities, (ii) an order that the Company subsidiary execute the golf course lease and the "Racino Parcel" lease subject to the settlement agreement, and (iii) an

extension of the restrictive covenant against ownership or operation of a casino on the Concord resort property under the settlement agreement, which covenant was set to expire on December 31, 2011. The Company subsidiaries filed counterclaims seeking related relief. The Cappelli Group subsequently obtained leave to discontinue its claims, but the counterclaims remain pending. On October 20, 2011, the Cappelli Group filed a complaint with the Supreme Court of the State of New York, County of Westchester against the Company and certain of its subsidiaries alleging breach of contract and breach of the duty of good faith and fair dealing with respect to a casino development agreement relating to a planned casino and resort development in Sullivan County, New York. Plaintiffs are seeking specific performance with respect to such agreement and money damages of \$800.0 million, plus interest and attorneys' fees. On March 7, 2012, Concord Associates, L.P. and six other companies affiliated with Mr. Cappelli and Concord Associates, L.P. filed a new complaint against the Company and certain of its subsidiaries, as well as Empire Resorts, Inc. and its subsidiary Monticello Raceway Management, Inc. (the "Empire Resorts Parties"), in the United States District Court for the Southern District of New York. On June 25, 2012, an amended complaint was served against the same parties as well as Kien Huat Realty III Limited and Genting New York, LLC (the "Genting Parties"). The amended complaint alleges unlawful restraint of trade, conspiracy to monopolize and unlawful monopolization against the Company, the Empire Resorts Parties and the Genting Parties as well as tortious interference against the Empire Resorts Parties and the Genting Parties, in relation to a proposed development transaction on the same Sullivan County, New York resort property. Plaintiffs seek damages of \$1.5 billion, plus interest and attorneys' fees. The Company has not determined that losses related to these matters are probable. The Company intends to vigorously defend the claims asserted against the Company and certain of its subsidiaries by the Cappelli Group, for which the Company believes it has meritorious defenses, but there can be no assurances as to its outcome.

16. Segment Information

The Company groups investments into four reportable operating segments: entertainment, education, recreation and other. The financial information summarized below is presented by reportable operating segment, consistent with how the Company regularly reviews and manages its business:

Balance Sheet Data:

	As of March 31, 2013					Consolidated
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	
Total Assets	\$1,814,656	\$392,265	\$444,316	\$228,453	\$ 72,102	\$2,951,792

	As of December 31, 2012					Consolidated
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	
Total Assets	\$1,818,712	\$376,048	\$427,977	\$252,444	\$ 71,549	\$2,946,730

Operating Data:

	Three Months Ended March 31, 2013					Consolidated
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	
Rental revenue	\$54,983	\$3,157	\$1,909	\$738	\$ —	\$60,787
Tenant reimbursements	4,744	—	—	—	—	4,744
Other income	23	—	—	1	—	24
Mortgage and other financing income	2,204	7,957	7,555	79	—	17,795
Total revenue	61,954	11,114	9,464	818	—	83,350
Property operating expense	7,135	—	—	(130)	—	7,005
Other expense	—	—	—	141	53	194
Total investment expenses	7,135	—	—	11	53	7,199
Net operating income (loss) - before unallocated items	54,819	11,114	9,464	807	(53)	76,151

Reconciliation to Consolidated Statements of Income:

General and administrative expense	(6,652))
Gain on early extinguishment of debt	4,539)
Interest expense, net	(19,989))
Transaction costs	(318))
Depreciation and amortization	(13,438))
Equity in income from joint ventures	351)
Discontinued operations:		
Loss from discontinued operations	(3))
Gain on sale or acquisition of real estate	565)
Net income	41,206)
Preferred dividend requirements	(5,952))
Net income available to common shareholders of EPR Properties	\$35,254)

Edgar Filing: EPR PROPERTIES - Form 10-Q

	Three Months Ended March 31, 2012					Consolidated
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	
Rental revenue	\$54,561	\$1,420	\$519	\$758	\$ —	\$57,258
Tenant reimbursements	4,822	—	—	—	—	4,822
Other income	24	—	—	1	—	25
Mortgage and other financing income	447	7,295	6,906	26	—	14,674
Total revenue	59,854	8,715	7,425	785	—	76,779
Property operating expense	6,005	—	—	369	—	6,374
Other expense	—	—	—	183	167	350
Total investment expenses	6,005	—	—	552	167	6,724
Net operating income (loss) - before unallocated items	53,849	8,715	7,425	233	(167	) 70,055
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(6,467)
Interest expense, net						(18,141)
Transaction costs						(158)
Impairment charges						(3,998)
Depreciation and amortization						(11,740)
Equity in income from joint ventures						47
Discontinued operations:						
Income from discontinued operations						355
Impairment charges						(8,845)
Gain on sale or acquisition of real estate						282
Net income						21,390
Noncontrolling interests						(18)
Preferred dividend requirements						(6,001)
Net income available to common shareholders of EPR Properties						\$15,371

17. Condensed Consolidating Financial Statements

A portion of the Company's subsidiaries have guaranteed the Company's indebtedness under the Company's unsecured senior notes, unsecured revolving credit facility and unsecured term loan facility. The guarantees are joint and several, full and unconditional and subject to customary release provisions. The following summarizes the Company's condensed consolidating information as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012 (in thousands):

Condensed Consolidating Balance Sheet

As of March 31, 2013

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets					
Rental properties, net	\$—	\$1,119,885	\$738,319	\$—	\$1,858,204
Rental properties held for sale, net	—	—	2,788	—	2,788
Land held for development	—	—	197,740	—	197,740
Property under development	—	34,541	3,828	—	38,369
Mortgage notes and related accrued interest receivable	—	425,568	42,989	—	468,557
Investment in a direct financing lease, net	—	235,302	—	—	235,302
Investment in joint ventures	7,398	—	4,889	—	12,287
Cash and cash equivalents	4,319	208	7,236	—	11,763
Restricted cash	—	19,703	12,911	—	32,614
Deferred financing costs, net	13,186	4,342	1,180	—	18,708
Accounts receivable, net	77	17,873	20,296	—	38,246
Intercompany notes receivable	104,575	—	4,240	(108,815)	—
Investments in subsidiaries	2,229,391	—	—	(2,229,391)	—
Other assets	20,724	3,722	12,768	—	37,214
Total assets	\$2,379,670	\$1,861,144	\$1,049,184	\$(2,338,206)	\$2,951,792
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	\$24,429	\$14,476	\$8,893	\$—	\$47,798
Dividends payable	43,113	—	—	—	43,113
Unearned rents and interest	—	19,210	774	—	19,984
Intercompany notes payable	—	—	108,815	(108,815)	—
Long-term debt	855,000	59,000	469,392	—	1,383,392
Total liabilities	922,542	92,686	587,874	(108,815)	1,494,287
EPR Properties shareholders' equity	1,457,128	1,768,458	460,933	(2,229,391)	1,457,128
Noncontrolling interests	—	—	377	—	377
Total equity	1,457,128	1,768,458	461,310	(2,229,391)	1,457,505
Total liabilities and equity	\$2,379,670	\$1,861,144	\$1,049,184	\$(2,338,206)	\$2,951,792

Condensed Consolidating Balance Sheet
As of December 31, 2012

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets					
Rental properties, net	\$—	\$1,113,658	\$771,435	\$—	\$1,885,093
Rental properties held for sale, net	—	—	2,788	—	2,788
Land held for development	—	—	196,177	—	196,177
Property under development	—	25,419	3,957	—	29,376
Mortgage notes and related accrued interest receivable	—	414,075	41,677	—	455,752
Investment in a direct financing lease, net	—	234,089	—	—	234,089
Investment in joint ventures	7,250	—	4,721	—	11,971
Cash and cash equivalents	1,531	651	8,482	—	10,664
Restricted cash	—	9,715	14,276	—	23,991
Deferred financing costs, net	13,563	4,812	1,304	—	19,679
Accounts receivable, net	139	16,830	21,769	—	38,738
Intercompany notes receivable	103,104	—	4,147	(107,251)	—
Investments in subsidiaries	2,231,079	—	—	(2,231,079)	—
Other assets	21,482	3,956	12,974	—	38,412
Total assets	\$2,378,148	\$1,823,205	\$1,083,707	\$(2,338,330)	\$2,946,730
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	\$37,441	\$16,662	\$11,378	\$—	\$65,481
Dividends payable	41,186	—	—	—	41,186
Unearned rents and interest	—	7,393	3,940	—	11,333
Intercompany notes payable	—	—	107,251	(107,251)	—
Long-term debt	840,000	53,315	475,517	—	1,368,832
Total liabilities	918,627	77,370	598,086	(107,251)	1,486,832
EPR Properties shareholders' equity	1,459,521	1,745,835	485,244	(2,231,079)	1,459,521
Noncontrolling interests	—	—	377	—	377
Total equity	\$1,459,521	\$1,745,835	\$485,621	\$(2,231,079)	\$1,459,898
Total liabilities and equity	\$2,378,148	\$1,823,205	\$1,083,707	\$(2,338,330)	\$2,946,730

Condensed Consolidating Statement of Income
Three Months Ended March 31, 2013

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non- Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	\$—	\$36,383	\$24,404	\$—	\$60,787
Tenant reimbursements	—	537	4,207	—	4,744
Other income	23	—	1	—	24
Mortgage and other financing income	252	16,453	1,090	—	17,795
Intercompany fee income	668	—	—	(668)) —
Interest income on intercompany notes receivable	4,264	—	93	(4,357)) —
Total revenue	5,207	53,373	29,795	(5,025)	) 83,350
Equity in subsidiaries' earnings	48,333	—	—	(48,333)) —
Property operating expense	—	2,226	4,779	—	7,005
Intercompany fee expense	—	—	668	(668)) —
Other expense	—	—	194	—	194
General and administrative expense	—	4,221	2,431	—	6,652
Gain on early extinguishment of debt	—	(4,539)	) —	—	(4,539)
Interest expense, net	11,927	952	7,110	—	19,989
Interest expense on intercompany notes payable	—	—	4,357	(4,357)) —
Transaction costs	318	—	—	—	318
Depreciation and amortization	272	7,108	6,058	—	13,438
Income before equity in income from joint ventures and discontinued operations	41,023	43,405	4,198	(48,333)	) 40,293
Equity in income from joint ventures	183	—	168	—	351
Income from continuing operations	\$41,206	\$43,405	\$4,366	\$(48,333)	) \$40,644
Discontinued operations:					
Income (loss) from discontinued operations	—	(21)	) 18	—	(3)
Gain on sale or acquisition of real estate	—	—	565	—	565
Net income	41,206	43,384	4,949	(48,333)	) 41,206
Preferred dividend requirements	(5,952)	) —	—	—	(5,952)
Net income available to common shareholders of EPR Properties	\$35,254	\$43,384	\$4,949	\$(48,333)	) \$35,254
Comprehensive income attributable to EPR Properties	\$40,698	\$43,467	\$4,141	\$(47,608)	) \$40,698

Edgar Filing: EPR PROPERTIES - Form 10-Q

Condensed Consolidating Statement of Income
Three Months Ended March 31, 2012

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	\$—	\$32,832	\$24,426	\$—	\$57,258
Tenant reimbursements	—	284	4,538	—	4,822
Other income	23	1	1	—	25
Mortgage and other financing income	95	13,975	604	—	14,674
Intercompany fee income	676	—	—	(676) —
Interest income on intercompany notes receivable	4,215	—	85	(4,300) —
Total revenue	5,009	47,092	29,654	(4,976	) 76,779
Equity in subsidiaries' earnings	23,450	—	—	(23,450) —
Property operating expense	—	1,063	5,311	—	6,374
Intercompany fee expense	—	—	676	(676) —
Other expense	—	—	350	—	350
General and administrative expense	—	3,936	2,531	—	6,467
Interest expense, net	6,722	3,997	7,422	—	18,141
Interest expense on intercompany notes payable	—	—	4,300	(4,300) —
Transaction costs	158	—	—	—	158
Impairment charges	—	—	3,998	—	3,998
Depreciation and amortization	256	5,877	5,607	—	11,740
Income (loss) before equity in income from joint ventures and discontinued operations	21,323	32,219	(541	) (23,450	) 29,551
Equity in income (loss) from joint ventures	49	—	(2	) —	47
Income (loss) from continuing operations	\$21,372	\$32,219	\$(543	) \$(23,450	) \$29,598
Discontinued operations:					
Income from discontinued operations	—	7	348	—	355
Impairment charges	—	—	(8,845	) —	(8,845
Gain on sale or acquisition of real estate	—	282	—	—	282
Net income (loss)	21,372	32,508	(9,040	) (23,450	) 21,390
Add: Net income attributable to noncontrolling interests	—	—	(18	) —	(18
Net income (loss) attributable to EPR Properties	21,372	32,508	(9,058	) (23,450	) 21,372
Preferred dividend requirements	(6,001	) —	—	—	(6,001
Net income (loss) available to common shareholders of EPR Properties	\$15,371	\$32,508	\$(9,058	) \$(23,450	) \$15,371
Comprehensive income (loss) attributable to EPR Properties	\$21,670	\$32,453	\$(7,711	) \$(24,742	) \$21,670

Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2013

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	\$668	\$—	\$ (668) \$—
Interest income (expense) on intercompany receivable/payable	4,264	—	(4,264) —
Net cash provided (used) by other operating activities	(20,915	) 46,861	12,904	38,850
Net cash provided (used) by operating activities of continuing operations	(15,983	) 46,861	7,972	38,850
Net cash provided (used) by operating activities of discontinued operations	—	(31	) 1,353	1,322
Net cash provided (used) by operating activities	(15,983	) 46,830	9,325	40,172
Investing activities:				
Acquisition of rental properties and other assets	(123	) (7,918	) (133	) (8,174
Investment in unconsolidated joint ventures	(433	) —	—	(433
Investment in mortgage notes receivable	—	(11,504	) (1,265	) (12,769
Additions to property under development	—	(16,272	) (1,447	) (17,719
Investment in (repayment of) intercompany notes payable	(1,471	) —	1,471	—
Advances to subsidiaries, net	50,845	(21,838	) (29,007) —
Net cash provided (used) by investing activities of continuing operations	48,818	(57,532	) (30,381	) (39,095
Net proceeds from sale of real estate from discontinued operations	—	—	24,146	24,146
Net cash provided (used) by investing activities	48,818	(57,532	) (6,235	) (14,949
Financing activities:				
Proceeds from long-term debt facilities	15,000	55,000	—	70,000
Principal payments on long-term debt	—	(44,740	) (4,210	) (48,950
Deferred financing fees paid	(48	) (1	) (18	) (67
Net proceeds from issuance of common shares	84	—	—	84
Impact of stock option exercises, net	(692	) —	—	(692
Purchase of common shares for treasury	(3,245	) —	—	(3,245
Dividends paid to shareholders	(41,146	) —	—	(41,146
Net cash provided (used) by financing	(30,047	) 10,259	(4,228	) (24,016
Effect of exchange rate changes on cash	—	—	(108	) (108
Net increase (decrease) in cash and cash equivalents	2,788	(443	) (1,246	) 1,099
Cash and cash equivalents at beginning of the period	1,531	651	8,482	10,664
Cash and cash equivalents at end of the period	\$4,319	\$208	\$ 7,236	\$11,763

Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2012

	EPR Properties (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	\$676	\$—	\$ (676)	\$—
Interest income (expense) on intercompany receivable/payable	4,215	—	(4,215)	—
Net cash provided (used) by other operating activities	(11,752)	39,790	13,440	41,478
Net cash provided (used) by operating activities of continuing operations	(6,861)	39,790	8,549	41,478
Net cash provided by operating activities of discontinued operations	—	194	287	481
Net cash provided (used) by operating activities	(6,861)	39,984	8,836	41,959
Investing activities:				
Acquisition of rental properties and other assets	(24)	(31,328)	(155)	(31,507)
Investment in unconsolidated joint ventures	(442)	—	—	(442)
Investment in mortgage note receivable	—	(9,989)	(14,462)	(24,451)
Additions to property under development	—	(12,583)	(1,089)	(13,672)
Investment in (repayment of) intercompany notes payable	(311)	—	311	—
Advances to subsidiaries, net	(188,117)	181,088	7,029	—
Net cash provided (used) by investing activities of continuing operations	(188,894)	127,188	(8,366)	(70,072)
Net proceeds from sale of real estate from discontinued operations	—	282	—	282
Net cash provided (used) by investing activities	(188,894)	127,470	(8,366)	(69,790)
Financing activities:				
Proceeds from long-term debt facilities	240,000	80,000	—	320,000
Principal payments on long-term debt	—	(247,420)	(3,908)	(251,328)
Deferred financing fees paid	(1,844)	—	(8)	(1,852)
Net proceeds from issuance of common shares	56	—	—	56
Impact of stock option exercises, net	(480)	—	—	(480)
Purchase of common shares for treasury	(3,209)	—	—	(3,209)
Dividends paid to shareholders	(38,681)	—	—	(38,681)
Net cash provided (used) by financing activities	195,842	(167,420)	(3,916)	24,506
Effect of exchange rate changes on cash	—	5	169	174
Net increase (decrease) in cash and cash equivalents	87	39	(3,277)	(3,151)
Cash and cash equivalents at beginning of the period	1,933	1,243	11,449	14,625
Cash and cash equivalents at end of the period	\$2,020	\$1,282	\$8,172	\$11,474

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto on this Form 10-Q of EPR Properties ("the Company", "EPR", "we" or "us"). The forward-looking statements included in this discussion and elsewhere on this Form 10-Q involve risks and uncertainties, including anticipated financial performance, business prospects, industry trends, shareholder returns, performance of leases by tenants, performance on loans to customers and other matters, which reflect management's best judgment based on factors currently known. See "Cautionary Statement Concerning Forward-Looking Statements" which is incorporated herein by reference. Actual results and experience could differ materially from the anticipated results and other expectations expressed in our forward-looking statements as a result of a number of factors, including but not limited to those discussed in this Item and Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 27, 2013.

Overview

Business

Our principal business objective is to enhance shareholder value by achieving predictable and increasing Funds From Operations ("FFO") and dividends per share. Our prevailing strategy is to focus on long-term investments in a limited number of categories in which we maintain a depth of knowledge and relationships, and which we believe offer sustained performance throughout all economic cycles. Our investment portfolio includes ownership of and long-term mortgages on entertainment, education and recreation properties. Substantially all of our owned single-tenant properties are leased pursuant to long-term, triple-net leases, under which the tenants typically pay all operating expenses of the property. Tenants at our owned multi-tenant properties are typically required to pay common area maintenance charges to reimburse us for their pro-rata portion of these costs.

It has been our strategy to structure leases and financings to ensure a positive spread between our cost of capital and the rentals or interest paid by our tenants. We have primarily acquired or developed new properties that are pre-leased to a single tenant or multi-tenant properties that have a high occupancy rate. We have also entered into certain joint ventures and we have provided mortgage note financing. We intend to continue entering into some or all of these types of arrangements in the foreseeable future.

Historically, our primary challenges have been locating suitable properties, negotiating favorable lease or financing terms (on new or existing properties), and managing our portfolio as we have continued to grow. We believe our management's knowledge and industry relationships have facilitated opportunities for us to acquire, finance and lease properties. Our business is subject to a number of risks and uncertainties, including those described in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012.

As of March 31, 2013, our total assets exceeded \$2.9 billion (after accumulated depreciation of approximately \$0.4 billion) which included investments in 113 megaplex theatre properties (including two joint venture properties), 39 public charter school properties, one early education center and various other entertainment and recreation properties located in 36 states, the District of Columbia and Ontario, Canada. The combined owned portfolio consisted of 13.7 million square feet and was 98% leased. As of March 31, 2013, we had invested approximately \$236.1 million in development land and property under development and approximately \$468.6 million in mortgage financing for entertainment, education and recreation properties.

Our total investments were approximately \$3.2 billion at March 31, 2013. Total investments is defined herein as the sum of the carrying values of rental properties and rental properties held for sale (before accumulated depreciation), land held for development, property under development, mortgage notes receivable (including related accrued interest receivable), net, investment in a direct financing lease, net, investment in joint ventures, intangible assets (before

accumulated amortization) and notes receivable and related accrued interest receivable, net. Below is a reconciliation of the carrying value of total investments to the constituent items in the consolidated balance sheet at March 31, 2013 (in thousands):

33

Rental properties, net of accumulated depreciation	\$1,858,204
Rental properties held for sale, net of accumulated depreciation	2,788
Add back accumulated depreciation on rental properties	383,332
Add back accumulated depreciation on rental properties held for sale	319
Land held for development	197,740
Property under development	38,369
Mortgage notes and related accrued interest receivable	468,557
Investment in a direct financing lease, net	235,302
Investment in joint ventures	12,287
Intangible assets, gross ⁽¹⁾	14,049
Notes receivable and related accrued interest receivable, net ⁽¹⁾	4,913
Total investments	\$3,215,860

(1) Included in other assets in the accompanying consolidated balance sheet. Other assets includes the following:

Intangible assets, gross	\$ 14,049	
Less: accumulated amortization on intangible assets	(11,088)
Notes receivable and related accrued interest receivable, net	4,913	
Prepaid expenses and other current assets	29,340	
Total other assets	\$37,214	

Management believes that total investments is a useful measure for management and investors as it illustrates across which asset categories the Company's funds have been invested. Total investments is a non-GAAP financial measure and is not a substitute for total assets under GAAP. Furthermore, total investments may not be comparable to similarly titled financial measures reported by other companies due to differences in the way the Company calculates this measure. For financial reporting purposes, we group our investments into four reportable operating segments: entertainment, education, recreation and other. Our total investments of \$3.2 billion at March 31, 2013 consisted of interests in the following:

\$2.2 billion or 67% related to entertainment properties which includes megaplex theatres, entertainment retail centers (centers typically anchored by an entertainment component such as a megaplex theatre or live performance venue and containing other entertainment-related or retail properties), family entertainment centers and other retail parcels; \$389.4 million or 12% related to education properties which consists of investments in public charter schools as well as one early education center; \$428.1 million or 13% related to recreation properties which includes metro ski parks, water-parks and golf entertainment complexes; and \$240.3 million or 8% related to other properties, including \$193.3 million related to the land held for development in Sullivan County, New York and \$47.0 million (before accumulated depreciation) related to vineyards and wineries.

Operating Results

Our total revenue, net income available to common shareholders and Funds From Operations As Adjusted ("FFOAA") are detailed below for the three months ended March 31, 2013 and 2012 (in millions, except per share information):

	Three months ended March 31,		Increase	
	2013	2012		
Total revenue	\$83,350	\$76,779	9	%
Net income available to common shareholders of EPR Properties	35,254	15,371	129	%
FFOAA per diluted share	0.94	0.86	9	%

Our total revenue, net income available to common shareholders of EPR Properties and FFOAA per diluted share increased year over year primarily due to investment spending in 2012 and 2013 and lower financing rates. Our net income available to common shareholders of EPR Properties for the three months ended March 31, 2013 was also favorably impacted by a \$4.5 million gain on early extinguishment of debt as well as a \$0.6 million gain related to the sale of vineyard and winery properties. Our net income available to common shareholders of EPR Properties for the three months ended March 31, 2012 was negatively impacted by impairment charges related to our vineyard and winery properties as we exit that business. FFOAA is a non-GAAP financial measure. For the definitions and further details on the calculations of FFOAA and certain other non-GAAP financial measures, see section below titled "Funds From Operations (FFO), Funds From Operations As Adjusted (FFOAA) and Adjusted Funds from Operations (AFFO)."

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has made its best estimates and assumptions that affect the reported assets and liabilities. The most significant assumptions and estimates relate to consolidation, revenue recognition, depreciable lives of the real estate, the valuation of real estate, accounting for real estate acquisitions, estimating reserves for uncollectible receivables and the accounting for mortgage and other notes receivable, all of which are described as our critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2012. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates. For the three months ended March 31, 2013, there were no changes to critical accounting policies.

Recent Developments

Debt Financing

On March 4, 2013, we entered into a Discounted Payoff and Settlement Agreement (the "Agreement") regarding one of our loan agreements secured by a theatre property located in Omaha, Nebraska. Pursuant to the Agreement, we made a cash payment of \$9.7 million that included a forfeited restricted cash account with a balance of \$1.2 million in full satisfaction of the loan. Accordingly, we recorded a gain on early extinguishment of debt of \$4.5 million during the three months ended March 31, 2013.

On March 5, 2013, we added to our unsecured term loan facility to increase the size of the facility from \$240.0 million to \$255.0 million. For further detail, see Note 8 to the consolidated financial statements included in this Form 10-Q.

Investment Spending

Our investment spending during the three months ended March 31, 2013 totaled approximately \$38.7 million, and included investments in each of our four operating segments.

Entertainment investment spending during the three months ended March 31, 2013 totaled \$14.7 million, and related primarily to investments in build-to-suit construction of six megaplex theatres and one family entertainment center that are subject to long-term triple net leases or long-term mortgage agreements.

Education investment spending during the three months ended March 31, 2013 totaled \$15.1 million, and related to investments in build-to-suit construction of five public charter schools and an acquisition of an early childhood education center located in Peoria, Arizona that are subject to long-term triple net leases or long-term mortgage agreements.

Edgar Filing: EPR PROPERTIES - Form 10-Q

Recreation investment spending during the three months ended March 31, 2013 totaled \$7.4 million, and related to fundings under our mortgage notes for improvements at existing ski and water-park properties. In addition, our recreation investment spending related to build-to-suit construction of three TopGolf golf entertainment facilities, as well as funding improvements at our ski property located in Maryland.

Other investment spending during the three months ended March 31, 2013 totaled \$1.5 million and related to the land held for development in Sullivan County, New York.

35

Additionally, during the three months ended March 31, 2013, we extended our mortgage loan agreement with Peak Resorts, Inc. from April 1, 2013 to April 1, 2016. The loan is secured by 696 acres of development land at Mt. Snow.

The following details our investment spending during the three months ended March 31, 2013 and 2012 (in thousands):

For the Three Months Ended March 31, 2013

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Investment in Mortgage Notes	Investment in Joint Ventures
Entertainment	\$14,677	\$11,912	\$1,067	\$—	\$1,265	\$433
Education	15,085	4,439	—	3,720	6,926	—
Recreation	7,362	1,688	—	1,096	4,578	—
Other	1,563	1,563	—	—	—	—
Total Investment Spending	\$38,687	\$19,602	\$1,067	\$4,816	\$12,769	\$433

For the Three Months Ended March 31, 2012

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Investment in Mortgage Notes	Investment in Joint Ventures
Entertainment	\$18,021	\$6,147	\$1,861	\$9,571	\$—	\$442
Education	22,645	8,386	—	—	14,259	—
Recreation	29,075	—	—	20,014	9,061	—
Total Investment Spending	\$69,741	\$14,533	\$1,861	\$29,585	\$23,320	\$442

The above amounts include \$32 thousand in capitalized payroll for the three months ended March 31, 2013. There were no capitalized payroll costs for the three months ended March 31, 2012. Additionally, the above amounts include \$314 thousand and \$146 thousand in capitalized interest and \$303 thousand and \$318 thousand in capitalized other general and administrative direct project costs for the three months ended March 31, 2013 and 2012, respectively. In addition, the Company had \$409 thousand and \$330 thousand of maintenance capital expenditures for the three months ended March 31, 2013 and 2012, respectively.

Vineyards and Wineries

On March 18, 2013, we sold a winery and a portion of related vineyards located in Sonoma County, California for proceeds of \$24.1 million and recognized a gain of \$0.6 million during the three months ended March 31, 2013.

Results of Operations

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Rental revenue was \$60.8 million for the three months ended March 31, 2013 compared to \$57.3 million for the three months ended March 31, 2012. Rental revenue increased \$3.5 million from the prior period, of which \$3.4 million was related to acquisitions completed in 2013 and 2012, and \$0.1 million was related to net rent increases on existing properties. Percentage rents of \$0.4 million and \$0.5 million were recognized during the three months ended March 31, 2013 and 2012, respectively. Straight-line rents of \$1.2 million and \$0.8 million were recognized during the three months ended March 31, 2013 and 2012, respectively.

During the three months ended March 31, 2013, we experienced a decrease of 39.7% in rental rates on approximately 415,000 square feet with respect to significant lease renewals and new leases on existing properties. Additionally, we have funded or have agreed to fund a weighted average of up to \$34.89 per square foot in tenant improvements for which we receive additional rent. There were no leasing commissions related to these renewals.

Tenant reimbursements totaled \$4.7 million for the three months ended March 31, 2013 compared to \$4.8 million for the three months ended March 31, 2012. These tenant reimbursements arise from the operations of our entertainment retail centers. The \$0.1 million decrease is primarily due to a decrease in tenant reimbursements at our retail centers in Ontario, Canada.

Mortgage and other financing income for the three months ended March 31, 2013 was \$17.8 million compared to \$14.7 million for the three months ended March 31, 2012. The \$3.1 million increase is primarily due to increased real estate lending activities.

Our property operating expense totaled \$7.0 million for the three months ended March 31, 2013 compared to \$6.4 million for the three months ended March 31, 2012. These property operating expenses primarily arise from the operations of our retail centers and other specialty properties. The \$0.6 million increase resulted primarily from increases in property operating and bad debt expenses at our multi-tenant properties.

Our general and administrative expense totaled \$6.7 million for the three months ended March 31, 2013 compared to \$6.5 million for the three months ended March 31, 2012. The increase of \$0.2 million is primarily due to an increase in payroll related expenses.

Gain on early extinguishment of debt for the three months ended March 31, 2013 was \$4.5 million and related to our discounted payoff of a mortgage loan secured by a theatre property located in Omaha, Nebraska. For further detail, see Note 8 to the consolidated financial statements included in this Form 10-Q. There was no gain on early extinguishment of debt for the three months ended March 31, 2012.

Our net interest expense increased by \$1.9 million to \$20.0 million for the three months ended March 31, 2013 from \$18.1 million for the three months ended March 31, 2012. This increase resulted from an increase in average borrowings and was partially offset by a decreased weighted-average interest rate used to finance our real estate acquisitions and fund our mortgage notes receivable.

There were no impairment charges for the three months ended March 31, 2013. Impairment charges for the three months ended March 31, 2012 were \$4.0 million and related to certain of our vineyard and winery properties.

Depreciation and amortization expense totaled \$13.4 million for the three months ended March 31, 2013 compared to \$11.7 million for the three months ended March 31, 2012. The \$1.7 million increase resulted primarily from asset acquisitions completed in 2013 and 2012.

Equity in income from joint ventures totaled \$0.4 million for the three months ended March 31, 2013 compared to \$0.05 million for the three months ended March 31, 2012. The \$0.35 million increase is primarily due to an increase

in income from our joint venture projects located in China as well as lower property operating expenses incurred at the property owned by the Atlantic-EPR I partnership.

Loss from discontinued operations totaled \$0.003 million for the three months ended March 31, 2013 and included the operations of the Pope Valley vineyard and winery which was held for sale as of March 31, 2013 as well as the operations of a portion of the Geyser Peak property that was sold on March 18, 2013. Loss from discontinued operations totaled \$8.5 million for the three months ended March 31, 2012 and related to the above mentioned properties (including \$0.8 million in impairment charges for Pope Valley) as well as the operations of the Carneros custom crush facility and the Buena Vista winery and vineyards (including \$8.0 million in impairment charges), which were both sold during 2012. For further detail, see Note 14 to the consolidated financial statements included in this Form 10-Q.

Gain on sale or acquisition of real estate of \$0.6 million for the three months ended March 31, 2013 related to the sale of a winery and a portion of related vineyards located in Sonoma County, California. Gain on sale or acquisition of real estate of \$0.3 million for the three months ended March 31, 2012 related to the settlement of escrow reserves established with the sale of Toronto Dundas Square.

Preferred dividend requirements were \$6.0 million for both the three months ended March 31, 2013 and March 31, 2012. The preferred dividend requirement remained the same over both periods after a decrease of \$2.1 million due to the redemption of 4.6 million Series D preferred shares on November 5, 2012, which was offset by an increase of nearly the same amount due to the issuance of 5.0 million Series F preferred shares on October 12, 2012.

Liquidity and Capital Resources

Cash and cash equivalents were \$11.8 million at March 31, 2013. In addition, we had restricted cash of \$32.6 million at March 31, 2013. Of the restricted cash at March 31, 2013, \$15.8 million relates to cash held for our borrowers' debt service reserves for mortgage notes receivable, \$1.2 million relates to escrow balances required in connection with the sale of Toronto Dundas Square and the balance represents deposits required in connection with debt service, payment of real estate taxes and capital improvements.

Mortgage Debt, Senior Notes, Credit Facility and Term Loan

As of March 31, 2013, we had total debt outstanding of \$1.4 billion of which \$458.8 million was fixed rate mortgage debt secured by a portion of our rental properties and mortgage notes receivable, with a weighted average interest rate of approximately 6.1%.

At March 31, 2013, we had outstanding \$250.0 million in aggregate principal amount of unsecured 7.75% senior notes due on July 15, 2020 and \$350.0 million in aggregate principal amount of unsecured 5.75% senior notes due on August 15, 2022, all of which are guaranteed by certain of our subsidiaries. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of our debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of our total unencumbered assets to be not less than 150% of our outstanding unsecured debt.

At March 31, 2013, we had \$59.0 million outstanding under our \$400.0 million unsecured revolving credit facility, with interest at a floating rate of LIBOR plus 160 basis points, which was 1.80% at March 31, 2013. The facility has a term expiring October 13, 2015 with a one year extension available at our option. The amount that we are able to borrow on our unsecured revolving credit facility is a function of the values and advance rates, as defined by the credit agreement, assigned to the assets included in the borrowing base less outstanding letters of credit and less other liabilities.

On March 5, 2013, we added to our unsecured term loan facility, increasing the size of the facility from \$240.0 million to \$255.0 million. The loan matures on January 5, 2017 and bears interest based on a grid related to the Company's senior unsecured credit ratings, which at closing was LIBOR plus 175 basis points, which was 1.95% at March 31, 2013. The net proceeds from this increased term loan facility were primarily utilized to pay down the Company's unsecured revolving credit facility.

38

Our unsecured revolving credit facility and our unsecured term loan facility contain substantially identical financial covenants that limit our levels of consolidated debt, secured debt, investment levels outside certain categories and dividend distributions, and require minimum coverage levels for fixed charges and unsecured debt service costs. Additionally, our unsecured revolving credit facility, unsecured term loan facility and our unsecured 7.75% and 5.75% senior notes contain cross-default provisions that go into effect if we default on any of our obligations for borrowed money or credit in an amount exceeding \$25.0 million, unless such default has been waived or cured within a specified period of time. We were in compliance with all financial covenants at March 31, 2013.

Our principal investing activities are acquiring, developing and financing entertainment, education and recreation properties. These investing activities have generally been financed with mortgage debt and senior unsecured notes, as well as the proceeds from equity offerings. Our unsecured revolving credit facility is also used to finance the acquisition or development of properties, and to provide mortgage financing. We have and expect to continue to issue debt securities in public or private offerings. Continued growth of our rental property and mortgage financing portfolios will depend in part on our continued ability to access funds through additional borrowings and securities offerings.

Certain of our other long-term debt agreements contain customary restrictive covenants related to financial and operating performance as well as certain cross-default provisions. We were in compliance with all financial covenants at March 31, 2013.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring corporate operating expenses, debt service requirements and distributions to shareholders. We meet these requirements primarily through cash provided by operating activities. Net cash provided by operating activities was \$40.2 million and \$42.0 million for the three months ended March 31, 2013 and 2012, respectively. Net cash used by investing activities was \$14.9 million and \$69.8 million for the three months ended March 31, 2013 and 2012, respectively. Net cash used by financing activities was \$24.0 million for the three months ended March 31, 2013 and net cash provided by financing activities was \$24.5 million for the three months ended March 31, 2012. We anticipate that our cash on hand, cash from operations, and funds available under our unsecured revolving credit facility will provide adequate liquidity to fund our operations, make interest and principal payments on our debt, and allow distributions to our shareholders and avoid corporate level federal income or excise tax in accordance with REIT Internal Revenue Code requirements.

Commitments

As of March 31, 2013, we had fourteen entertainment development projects under construction or under redevelopment for which we have commitments to fund approximately \$65.3 million, four education development projects under construction for which we have commitments to fund approximately \$17.7 million and two recreation development projects under construction for which we have commitments to fund approximately \$13.3 million. Development costs are advanced by us in periodic draws. If we determine that construction is not being completed in accordance with the terms of the development agreement, we can discontinue funding construction draws. We have agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

We have certain commitments related to our mortgage note investments that we may be required to fund in the future. We are generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of March 31, 2013, we had 11 mortgage notes receivable with commitments totaling approximately \$38.3 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

We have provided guarantees of the payment of certain economic development revenue bonds totaling \$34.8 million related to four theatres in Louisiana for which we earn a fee at annual rates of 1.75% to 4.00% over the 30-year terms of the related bonds. We have recorded \$11.2 million as a deferred asset included in other assets and \$11.2 million included in other liabilities in the accompanying consolidated balance sheet as of March 31, 2013 related to these

guarantees. No amounts have been accrued as a loss contingency related to these guarantees because payment by us is not probable.

Liquidity Analysis

In analyzing our liquidity, we generally expect that our cash provided by operating activities will meet our normal recurring operating expenses, recurring debt service requirements and distributions to shareholders.

We have no consolidated debt maturities for the remainder of 2013. Our cash commitments, as described above, include additional commitments under various mortgage notes receivable totaling approximately \$38.3 million. Of the \$38.3 million of mortgage note receivable commitments, approximately \$15.1 million is expected to be funded in 2013.

Our sources of liquidity as of March 31, 2013 to pay the above 2013 commitments include the remaining amount available under our unsecured revolving credit facility and unrestricted cash on hand of \$11.8 million. Accordingly, while there can be no assurance, we expect that our sources of cash will exceed our existing commitments over the remainder of 2013.

We also believe that we will be able to repay, extend, refinance or otherwise settle our debt obligations for 2014 and thereafter as the debt comes due, and that we will be able to fund our remaining commitments as necessary. However, there can be no assurance that additional financing or capital will be available, or that terms will be acceptable or advantageous to us.

Our primary use of cash after paying operating expenses, debt service, distributions to shareholders and funding existing commitments is in growing our investment portfolio through the acquisition, development and financing of additional properties. We expect to finance these investments with borrowings under our unsecured revolving credit facility, as well as long-term debt and equity financing alternatives. The availability and terms of any such financing will depend upon market and other conditions. If we borrow the maximum amount available under our unsecured revolving credit facility, there can be no assurance that we will be able to obtain additional investment financing.

Off Balance Sheet Arrangements

At March 31, 2013, we had a 44.4% and 30.7% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively, which are accounted for under the equity method of accounting. We do not anticipate any material impact on our liquidity as a result of commitments involving those joint ventures. We recognized income of \$183 thousand and \$49 thousand during the three months ended March 31, 2013 and 2012, respectively, from our equity investments in the Atlantic-EPR I and Atlantic-EPR II joint ventures. We also received distributions from Atlantic-EPR I and Atlantic-EPR II of \$223 thousand and \$354 thousand on our equity investment during the three months ended March 31, 2013 and 2012, respectively. The Atlantic-EPR II joint venture has a mortgage note payable secured by a megaplex theatre that totals \$11.7 million at March 31, 2013, and matures in September 2013. Condensed financial information for Atlantic-EPR I and Atlantic-EPR II joint ventures is included in Note 7 to the consolidated financial statements included in this Form 10-Q.

The partnership agreements for Atlantic-EPR I and Atlantic-EPR II allow our partner, Atlantic, to exchange up to a maximum of 10% of its ownership interest per year in each of the joint ventures for our common shares or, at our discretion, the cash value of those shares as defined in each of the partnership agreements. During 2012, we paid Atlantic cash of \$1.3 million and \$490 thousand in exchange for additional ownership of 6.0% and 3.8% for Atlantic-EPR I and Atlantic-EPR II, respectively. During 2013, we paid Atlantic cash of \$463 thousand and \$158 thousand in exchange for additional ownership of 2.3% and 1.1% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of March 31, 2013 and December 31, 2012, we had invested \$4.9 million and \$4.7 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. We recognized income of \$168 thousand and a loss of \$2 thousand from its investment in these joint ventures for the three months ended March 31, 2013 and 2012, respectively.

40

Capital Structure

We believe that our shareholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest, fixed charge and debt service coverage ratios. We expect to maintain our debt to gross assets ratio (i.e. total long-term debt to total assets plus accumulated depreciation) between 35% and 45%. However, the timing and size of our equity and debt offerings may cause us to temporarily operate over this threshold. At March 31, 2013, this ratio was 41%. Our long-term debt as a percentage of our total market capitalization at March 31, 2013 was 33%; however, we do not manage to a ratio based on total market capitalization due to the inherent variability that is driven by changes in the market price of our common shares. We calculate our total market capitalization of \$4.2 billion by aggregating the following at March 31, 2013:

• Common shares outstanding of 47,039,089 multiplied by the last reported sales price of our common shares on the NYSE of \$52.05 per share, or \$2.4 billion;

• Aggregate liquidation value of our Series C convertible preferred shares of \$135.0 million;

• Aggregate liquidation value of our Series E convertible preferred shares of \$86.3 million;

• Aggregate liquidation value of our Series F redeemable preferred shares of \$125.0 million; and

• Total long-term debt of \$1.4 billion.

Funds From Operations (FFO), Funds From Operations As Adjusted (FFOAA) and Adjusted Funds from Operations (AFFO)

The National Association of Real Estate Investment Trusts (“NAREIT”) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. Pursuant to the definition of FFO by the Board of Governors of NAREIT, we calculate FFO as net income available to common shareholders, computed in accordance with GAAP, excluding gains and losses from sales or acquisitions of depreciable operating properties and impairment losses of depreciable real estate, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships, joint ventures and other affiliates. Adjustments for unconsolidated partnerships, joint ventures and other affiliates are calculated to reflect FFO on the same basis. We have calculated FFO for all periods presented in accordance with this definition.

In addition to FFO, we present FFOAA and AFFO. FFOAA is presented by adding to FFO costs associated with loan refinancing or payoff, net, transaction costs, preferred share redemption costs and provision for loan losses and by subtracting gain on early extinguishment of debt. AFFO is presented by adding to FFOAA non-real estate depreciation and amortization, deferred financing fees amortization, share-based compensation expense to management and Trustees and amortization of above market leases, net; and subtracting maintenance capital expenditures (including second generation tenant improvements and leasing commissions), straight-lined rental revenue, and the non-cash portion of mortgage and other financing income.

FFO, FFOAA and AFFO are widely used measures of the operating performance of real estate companies and are provided here as a supplemental measure to GAAP net income available to common shareholders and earnings per share, and management provides FFO, FFOAA and AFFO herein because it believes this information is useful to investors in this regard. FFO, FFOAA and AFFO are non-GAAP financial measures. FFO, FFOAA and AFFO do not represent cash flows from operations as defined by GAAP and are not indicative that cash flows are adequate to fund all cash needs and are not to be considered alternatives to net income or any other GAAP measure as a measurement of the results of our operations or our cash flows or liquidity as defined by GAAP. It should also be noted that not all REITs calculate FFO, FFOAA and AFFO the same way so comparisons with other REITs may not be meaningful.

The following table summarizes our FFO, FFOAA and AFFO including per share amounts for FFO and FFOAA, for the three months ended March 31, 2013 and 2012 (unaudited, in thousands, except per share information):

Edgar Filing: EPR PROPERTIES - Form 10-Q

	Three Months Ended March 31,	
	2013	2012
FFO:		
Net income available to common shareholders of EPR Properties	\$35,254	\$15,371
Gain on sale or acquisition of property	(565	) (282
Real estate depreciation and amortization	13,468	12,197
Allocated share of joint venture depreciation	157	141
Impairment charges	—	12,843
FFO available to common shareholders of EPR Properties	\$48,314	\$40,270
FFOAA:		
FFO available to common shareholders of EPR Properties	48,314	40,270
Transaction costs	318	158
Gain on early extinguishment of debt	(4,539) —
FFOAA available to common shareholders of EPR Properties	\$44,093	\$40,428
AFFO:		
FFOAA available to common shareholders of EPR Properties	44,093	40,428
Non-real estate depreciation and amortization	277	260
Deferred financing fees amortization	999	1,085
Share-based compensation expense to management and trustees	1,548	1,464
Maintenance capital expenditures (1)	(525	) (354
Straight-lined rental revenue	(1,214	) (801
Non-cash portion of mortgage and other financing income	(1,265	) (1,258
AFFO available to common shareholders of EPR Properties	\$43,913	\$40,824
FFO per common share attributable to EPR Properties:		
Basic	\$1.03	\$0.86
Diluted	1.03	0.86
FFOAA per common share attributable to EPR Properties:		
Basic	\$0.94	\$0.87
Diluted	0.94	0.86
Shares used for computation (in thousands):		
Basic	46,854	46,677
Diluted	47,047	46,945
Other financial information:		
Dividends per common share	\$0.79	\$0.75

(1) Includes maintenance capital expenditures and certain second generation tenant improvements and leasing commissions.

The additional 1.9 million common shares that would result from the conversion of our 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of our 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012 because the effect is not dilutive.

Impact of Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Updated 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU

2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The ASU is effective for annual periods and interim periods within those periods

43

beginning after December 15, 2012. The ASU was effective for the Company in the first quarter of 2013 and did not have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, primarily relating to potential losses due to changes in interest rates and foreign currency exchange rates. We seek to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings whenever possible. We also have a \$400.0 million unsecured revolving credit facility with \$59.0 million outstanding as of March 31, 2013 and a \$10.7 million bond, both of which bear interest at a floating rate. We have a \$255.0 million unsecured term loan facility that bears interest at a floating rate and \$240.0 million of this LIBOR based debt was converted with interest rate swaps to a fixed rate of 2.66% for four years.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings are subject to mortgages or contractual agreements which limit the amount of indebtedness we may incur. Accordingly, if we are unable to raise additional equity or borrow money due to these limitations, our ability to make additional real estate investments may be limited.

We are exposed to foreign currency risk against our functional currency, the US dollar, on our five Canadian properties. We financed the acquisition of four of our Canadian entertainment retail centers with a fixed rate mortgage loan from a Canadian lender in the original aggregate principal amount of approximately U.S. \$97.0 million. The loan was made and is payable by us in CAD, and the rents received from tenants of the properties are payable in CAD.

As discussed above, we have partially mitigated the impact of foreign currency exchange risk on four of our Canadian properties by matching Canadian dollar debt financing with Canadian dollar rents. To further mitigate our foreign currency risk in future periods on these Canadian properties, during the second quarter of 2007, we entered into a cross currency swap with a notional value of \$76.0 million CAD and \$71.5 million U.S. The swap calls for monthly exchanges from January 2008 through February 2014 with us paying CAD based on an annual rate of 17.16% of the notional amount and receiving U.S. dollars based on an annual rate of 17.4% of the notional amount. There is no initial or final exchange of the notional amounts. The net effect of this swap is to lock in an exchange rate of \$1.05 CAD per U.S. dollar on approximately \$13.0 million of annual CAD denominated cash flows. These foreign currency derivatives should hedge a significant portion of our expected CAD denominated FFO of these four Canadian properties through February 2014 as their impact on our reported FFO when settled should move in the opposite direction of the exchange rates utilized to translate revenues and expenses of these properties.

In order to also hedge our net investment on the four Canadian properties, we entered into a forward contract with a notional amount of \$100.0 million CAD and a February 2014 settlement date which coincides with the maturity of our underlying mortgage on these four properties. The exchange rate of this forward contract is approximately \$1.04 CAD per U.S. dollar. This forward contract should hedge a significant portion of our CAD denominated net investment in these four centers through February 2014 as the impact on accumulated other comprehensive income from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of our four Canadian properties.

Additionally, we have entered into foreign currency forward agreements to hedge the currency fluctuations related to the monthly cash flows of our Canadian properties. These foreign currency forwards settled or settle at the end of each month from January to December 2013. These agreements lock in an exchange rate of \$0.98 CAD to \$0.99 CAD per U.S. dollar on approximately \$500 thousand of monthly CAD denominated cash flows.

See Note 10 to the consolidated financial statements included in this Form 10-Q for additional information on our derivative financial instruments and hedging activities.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter of the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On June 7, 2011, affiliates of Louis Cappelli, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC (the "Cappelli Group"), filed a complaint with the Supreme Court of the State of New York, County of Sullivan, against two subsidiaries of the Company seeking (i) a declaratory judgment on certain of one of the subsidiary's obligations under a previously disclosed settlement agreement involving these entities, (ii) an order that the Company subsidiary execute the golf course lease and the "Racino Parcel" lease subject to the settlement agreement, and (iii) an extension of the restrictive covenant against ownership or operation of a casino on the Concord resort property under the settlement agreement, which covenant was set to expire on December 31, 2011. The Company subsidiaries filed counterclaims seeking related relief. The Cappelli Group subsequently obtained leave to discontinue its claims, but the counterclaims remain pending. On October 20, 2011, the Cappelli Group filed a complaint with the Supreme Court of the State of New York, County of Westchester against the Company and certain of its subsidiaries alleging breach of contract and breach of the duty of good faith and fair dealing with respect to a casino development agreement relating to a planned casino and resort development in Sullivan County, New York. Plaintiffs are seeking specific performance with respect to such agreement and money damages of \$800.0 million, plus interest and attorneys' fees. On March 7, 2012, Concord Associates, L.P. and six other companies affiliated with Mr. Cappelli and Concord Associates, L.P. filed a new complaint against the Company and certain of its subsidiaries, as well as Empire Resorts, Inc. and its subsidiary Monticello Raceway Management, Inc. (the "Empire Resorts Parties"), in the United States District Court for the Southern District of New York. On June 25, 2012, an amended complaint was served against the same parties

as well as Kien Huat Realty III Limited and Genting New York, LLC (the “Genting Parties”). The amended complaint alleges unlawful restraint of trade, conspiracy to monopolize and unlawful monopolization against the Company, the Empire Resorts Parties and the Genting Parties as well as tortious interference against the Empire Resorts Parties and the Genting Parties, in relation to a proposed development transaction on the same Sullivan County, New York resort

property. Plaintiffs seek damages of \$1.5 billion, plus interest and attorneys' fees. The Company has not determined that losses related to these matters are probable. The Company intends to vigorously defend the claims asserted against the Company and certain of its subsidiaries by the Cappelli Group, for which the Company believes it has meritorious defenses, but there can be no assurances as to its outcome.

Item 1A. Risk Factors

There were no material changes during the quarter from the risk factors previously discussed in Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 27, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31, 2013 common stock	70,393	(1) \$46.11	—	\$—
February 1 through February 28, 2013 common stock	1,584	(1) 48.79	—	—
March 1 through March 31, 2013 common stock	4,177	(1) 49.43	—	—
Total	76,154	\$46.35	—	\$—

(1) The repurchase of equity securities during January of 2013 was completed in conjunction with the vesting of employee nonvested shares. The repurchase of equity securities during February and March 2013 was completed in conjunction with employee stock option exercises. These repurchases were not made pursuant to a publicly announced plan or program.

Item 3. Defaults Upon Senior Securities

There were no reportable events during the quarter ended March 31, 2013.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There were no reportable events during the quarter ended March 31, 2013.

Item 6. Exhibits

- 12.1* Computation of Ratio of Earnings to Fixed Charges is attached hereto as Exhibit 12.1
- 12.2* Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends is attached hereto as Exhibit 12.2
- 31.1* Certification of David M. Brain pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 31.1
- 31.2* Certification of Mark A. Peterson pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 31.2
- 32.1* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.1
- 32.2* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.2
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema
- 101.CAL* XBRL Extension Calculation Linkbase
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB* XBRL Taxonomy Extension Label Linkbase
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

SIGNATURES

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

EPR Properties

Dated: April 30, 2013

By /s/ David M. Brain
David M. Brain, President and Chief Executive
Officer (Principal Executive Officer)

Dated: April 30, 2013

By /s/ Mark A. Peterson
Mark A. Peterson, Senior Vice President, Chief
Financial Officer and Treasurer (Principal Financial
Officer and Chief Accounting Officer)

Exhibit Index

- 12.1* Computation of Ratio of Earnings to Fixed Charges is attached hereto as Exhibit 12.1
 - 12.2* Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends is attached hereto as Exhibit 12.2
 - 31.1* Certification of David M. Brain pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit 31.1
 - 31.2* Certification of Mark A. Peterson pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit 31.2
 - 32.1* Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.1
 - 32.2* Certification by Chief Financial Officer pursuant to 18 USC 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.2
 - 101.INS* XBRL Instance Document
 - 101.SCH* XBRL Taxonomy Extension Schema
 - 101.CAL* XBRL Extension Calculation Linkbase
 - 101.DEF* XBRL Taxonomy Extension Definition Linkbase
 - 101.LAB* XBRL Taxonomy Extension Label Linkbase
 - 101.PRE* XBRL Taxonomy Extension Presentation Linkbase
- * Filed herewith.