

ISTAR INC.
Form 10-Q
August 04, 2017
Table of Contents

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

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

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

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

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: ISTAR INC. - Form 10-Q

As of August 3, 2017, there were 72,190,312 shares, \$0.001 par value per share, of iStar Inc. common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I Consolidated Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements:</u>	<u>1</u>
<u>Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016</u>	<u>1</u>
<u>Consolidated Statements of Operations (unaudited)—For the three and six months ended June 30, 2017 and 2016</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) (unaudited)—For the three and six months ended June 30, 2017 and 2016</u>	<u>3</u>
<u>Consolidated Statements of Changes in Equity (unaudited)—For the six months ended June 30, 2017 and 2016</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (unaudited)—For the six months ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>58</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II Other Information</u>	<u>60</u>
<u>Item 1. Legal Proceedings</u>	<u>60</u>
<u>Item 1A. Risk Factors</u>	<u>60</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>61</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>61</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>61</u>
<u>Item 5. Other Information</u>	<u>61</u>
<u>Item 6. Exhibits</u>	<u>62</u>
<u>SIGNATURES</u>	<u>63</u>

Table of Contents

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate		
Real estate, at cost	\$1,710,915	\$1,740,893
Less: accumulated depreciation	(367,933)	(353,619)
Real estate, net	1,342,982	1,387,274
Real estate available and held for sale	68,045	237,531
Total real estate	1,411,027	1,624,805
Land and development, net	855,497	945,565
Loans receivable and other lending investments, net	1,170,565	1,450,439
Other investments	276,821	214,406
Cash and cash equivalents	954,279	328,744
Accrued interest and operating lease income receivable, net	10,501	11,254
Deferred operating lease income receivable, net	88,944	88,189
Deferred expenses and other assets, net	147,121	162,112
Total assets	\$4,914,755	\$4,825,514
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$230,259	\$211,570
Loan participations payable, net	107,442	159,321
Debt obligations, net	3,368,113	3,389,908
Total liabilities	3,705,814	3,760,799
Commitments and contingencies (refer to Note 11)	—	—
Redeemable noncontrolling interests (refer to Note 5)	3,585	5,031
Equity:		
iStar Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference \$25.00 per share (refer to Note 13)	22	22
Convertible Preferred Stock Series J, liquidation preference \$50.00 per share (refer to Note 13)	4	4
Common Stock, \$0.001 par value, 200,000 shares authorized, 72,190 and 72,042 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	72	72
Additional paid-in capital	3,603,981	3,602,172
Retained earnings (deficit)	(2,431,123)	(2,581,488)
Accumulated other comprehensive income (loss) (refer to Note 13)	(3,678)	(4,218)
Total iStar Inc. shareholders' equity	1,169,278	1,016,564
Noncontrolling interests	36,078	43,120
Total equity	1,205,356	1,059,684
Total liabilities and equity	\$4,914,755	\$4,825,514

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

Table of Contents

iStar Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Operating lease income	\$47,002	\$49,975	\$94,349	\$100,470
Interest income	28,645	34,400	57,703	67,620
Other income	139,510	10,096	151,374	21,636
Land development revenue	132,710	27,888	152,760	42,835
Total revenues	347,867	122,359	456,186	232,561
Costs and expenses:				
Interest expense	48,807	56,047	99,952	113,068
Real estate expense	34,684	35,328	70,274	69,572
Land development cost of sales	122,466	17,262	138,376	28,838
Depreciation and amortization	13,171	13,673	25,451	27,581
General and administrative	27,218	19,665	52,392	42,768
(Recovery of) provision for loan losses	(600)	700	(5,528)	2,206
Impairment of assets	10,284	3,012	14,696	3,012
Other expense	16,276	3,182	18,145	3,922
Total costs and expenses	272,306	148,869	413,758	290,967
Income (loss) before earnings from equity method investments and other items	75,561	(26,510)	42,428	(58,406)
Loss on early extinguishment of debt, net	(3,315)	(1,457)	(3,525)	(1,582)
Earnings from equity method investments	5,515	39,447	11,217	47,714
Income (loss) from continuing operations before income taxes	77,761	11,480	50,120	(12,274)
Income tax (expense) benefit	(1,644)	1,190	(2,251)	1,604
Income (loss) from continuing operations	76,117	12,670	47,869	(10,670)
Income from discontinued operations	173	3,633	4,939	7,214
Gain from discontinued operations	123,418	—	123,418	—
Income tax expense from discontinued operations	(4,545)	—	(4,545)	—
Income from sales of real estate ⁽¹⁾	844	43,484	8,954	53,943
Net income	196,007	59,787	180,635	50,487
Net (income) loss attributable to noncontrolling interests	(5,710)	(8,825)	(4,610)	(7,883)
Net income attributable to iStar Inc.	190,297	50,962	176,025	42,604
Preferred dividends	(12,830)	(12,830)	(25,660)	(25,660)
Net (income) loss allocable to Participating Security holders ⁽²⁾	—	(20)	—	(11)
Net income allocable to common shareholders	\$177,467	\$38,112	\$150,365	\$16,933
Per common share data:				
Income attributable to iStar Inc. from continuing operations:				
Basic	\$0.81	\$0.47	\$0.37	\$0.13
Diluted	\$0.69	\$0.34	\$0.35	\$0.13
Net income attributable to iStar Inc.:				
Basic	\$2.46	\$0.52	\$2.09	\$0.22
Diluted	\$2.04	\$0.37	\$1.76	\$0.22
Weighted average number of common shares:				

Edgar Filing: ISTAR INC. - Form 10-Q

Basic	72,142	73,984	72,104	75,522
Diluted	88,195	118,510	88,156	75,872

(1) Income from sales of real estate represents gains from sales of real estate that do not qualify as discontinued operations.

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

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

Table of Contents

iStar Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$196,007	\$59,787	\$180,635	\$50,487
Other comprehensive income (loss):				
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization ⁽¹⁾	(313)	118	(191)	375
Unrealized gains/(losses) on available-for-sale securities	583	446	566	465
Unrealized gains/(losses) on cash flow hedges	(146)	(357)	394	(1,319)
Unrealized gains/(losses) on cumulative translation adjustment	172	30	(229)	(10)
Other comprehensive income (loss)	296	237	540	(489)
Comprehensive income	196,303	60,024	181,175	49,998
Comprehensive (income) loss attributable to noncontrolling interests	(5,710)	(8,825)	(4,610)	(7,883)
Comprehensive income attributable to iStar Inc.	\$190,593	\$51,199	\$176,565	\$42,115

Reclassified to "Interest expense" in the Company's consolidated statements of operations are \$30 and \$60 for the three and six months ended June 30, 2017, respectively, and \$23 and \$183 for the three and six months ended (1) June 30, 2016, respectively. Reclassified to "Earnings from equity method investments" in the Company's consolidated statements of operations are \$70 and \$164 for the three and six months ended June 30, 2017, respectively, and \$95 and \$192 for the three and six months ended June 30, 2016, respectively.

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

iStar Inc.
Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2017 and 2016
(In thousands)
(unaudited)

iStar Inc. Shareholders' Equity								
	Preferred Stock Series J ⁽¹⁾	Preferred Stock at Par	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	\$ 22	\$ 4	\$ 72	\$ 3,602,172	\$(2,581,488)	\$ (4,218)	\$ 43,120	\$ 1,059,684
Dividends declared—preferred	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1,699	—	—	—	1,699
Net income for the period ⁽²⁾	—	—	—	—	176,025	—	5,946	181,971
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	540	—	540
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	110	—	—	—	110
Distributions to noncontrolling interest	—	—	—	—	—	—	(12,988)	(12,988)
Balance as of June 30, 2017	\$ 22	\$ 4	\$ 72	\$ 3,603,981	\$(2,431,123)	\$ (3,678)	\$ 36,078	\$ 1,205,356
Balance as of December 31, 2015	\$ 22	\$ 4	\$ 81	\$ 3,689,330	\$(2,625,474)	\$ (4,851)	\$ 42,218	\$ 1,101,330
Dividends declared—preferred	—	—	—	—	(25,660)	—	—	(25,660)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1,371	—	—	—	1,371
Net income for the period ⁽²⁾	—	—	—	—	42,604	—	10,520	53,124
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(489)	—	(489)
Repurchase of stock	—	—	(9)	(91,826)	—	—	—	(91,835)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	460	—	—	—	460
Contributions from noncontrolling interests	—	—	—	—	—	—	444	444
Change in noncontrolling interest ⁽³⁾	—	—	—	—	—	—	(7,292)	(7,292)
Balance as of June 30, 2016	\$ 22	\$ 4	\$ 72	\$ 3,599,335	\$(2,608,530)	\$ (5,340)	\$ 45,890	\$ 1,031,453

Edgar Filing: ISTAR INC. - Form 10-Q

(1) Refer to Note 13 for details on the Company's Preferred Stock.

(2) For the six months ended June 30, 2017 and 2016, net income (loss) shown above excludes \$(1,336) and \$(2,637) of net loss attributable to redeemable noncontrolling interests.

(3) Includes a payment to acquire a noncontrolling interest (refer to Note 5).

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

4

Table of Contents

iStar Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 180,635	\$ 50,487
Adjustments to reconcile net income to cash flows from operating activities:		
(Recovery of) provision for loan losses	(5,528)	2,206
Impairment of assets	14,696	3,012
Depreciation and amortization	26,352	29,182
Non-cash expense for stock-based compensation	9,796	6,211
Amortization of discounts/premiums and deferred financing costs on debt obligations, net	6,615	8,901
Amortization of discounts/premiums on loans, net	(6,978)	(7,237)
Deferred interest on loans, net	(1,290)	4,631
Gain from discontinued operations	(123,418)	—
Earnings from equity method investments	(11,217)	(47,714)