

EPR PROPERTIES  
Form 10-Q  
August 05, 2015

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 June 30, 2015

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  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

909 Walnut Street, Suite 200

64106

Kansas City, Missouri

(Zip Code)

(Address of principal executive offices)

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 August 4, 2015, there were 57,798,021 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 and financial condition. 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," "pipeline," "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;

• Volatility in the financial markets;

• Adverse changes in our credit ratings;

• Fluctuations in interest rates;

• The duration or outcome of litigation, or other factors outside of litigation such as casino licensing and project financing, 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;

• Risks associated with a single tenant representing a substantial portion of our lease revenues;

• Risks associated with a single tenant leasing or being the mortgagor of a substantial portion of our investments related to metro ski parks and a single tenant leasing 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;

• The concentration and lack of diversification of our investment portfolio;

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

• The ability of our subsidiaries to satisfy their obligations;

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

• Risks associated with security breaches and other disruptions;

• Our reliance on a limited number of employees, the loss of which could harm operations;

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

• Risks relating to real estate ownership, leasing and development, including 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;
- Risks associated with the relatively illiquid nature of our real estate investments;
- Risks with owning assets in foreign countries;
- Risks associated with owning, operating or financing properties for which the tenants', mortgagors' or our operations may be impacted by weather conditions and climate change;
- Risks associated with the development, redevelopment and expansion of properties and the acquisition of other real estate related companies;
- 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 that 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, 2014 filed with the Securities and Exchange Commission ("SEC") on February 25, 2015.

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.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## EPR PROPERTIES

## Consolidated Balance Sheets

(Dollars in thousands except share data)

|  | June 30, 2015<br>(unaudited) | December 31, 2014 |
|--|------------------------------|-------------------|
| Assets   |                              |                   |
| Rental properties, net of accumulated depreciation of \$492,602 and \$465,660 at June 30, 2015 and December 31, 2014, respectively                             | \$2,536,539                  | \$2,451,534       |
| Land held for development  | 30,495                       | 206,001           |
| Property under development   | 494,066                      | 181,798           |
| Mortgage notes and related accrued interest receivable   | 546,245                      | 507,955           |
| Investment in a direct financing lease, net  | 189,203                      | 199,332           |
| Investment in joint ventures   | 6,101                        | 5,738             |
| Cash and cash equivalents  | 6,146                        | 3,336             |
| Restricted cash  | 15,289                       | 13,072            |
| Deferred financing costs, net  | 25,337                       | 19,909            |
| Accounts receivable, net   | 64,493                       | 47,282            |
| Other assets   | 77,478                       | 66,091            |
| Total assets   | \$3,991,392                  | \$3,702,048       |
| Liabilities and Equity   |                              |                   |
| Liabilities:   |                              |                   |
| Accounts payable and accrued liabilities   | \$80,855                     | \$82,180          |
| Common dividends payable   | 17,308                       | 16,281            |
| Preferred dividends payable  | 5,952                        | 5,952             |
| Unearned rents and interest  | 39,270                       | 25,623            |
| Debt   | 1,945,864                    | 1,645,523         |
| Total liabilities  | 2,089,249                    | 1,775,559         |
| Equity:  |                              |                   |
| Common Shares, \$.01 par value; 75,000,000 shares authorized; and 59,204,909 and 58,952,404 shares issued at June 30, 2015 and December 31, 2014, respectively | 592                          | 589               |
| Preferred Shares, \$.01 par value; 25,000,000 shares authorized:   |                              |                   |
| 5,400,000 Series C convertible shares issued at June 30, 2015 and December 31, 2014; liquidation preference of \$135,000,000                                   | 54                           | 54                |
| 3,450,000 Series E convertible shares issued at June 30, 2015 and December 31, 2014; liquidation preference of \$86,250,000                                    | 35                           | 35                |
| 5,000,000 Series F shares issued at June 30, 2015 and December 31, 2014; liquidation preference of \$125,000,000   | 50                           | 50                |
| Additional paid-in-capital   | 2,296,903                    | 2,283,440         |
| Treasury shares at cost: 1,988,096 and 1,826,463 common shares at June 30, 2015 and December 31, 2014, respectively  | (77,244)                     | (67,846)          |
| Accumulated other comprehensive income   | 8,290                        | 12,566            |
| Distributions in excess of net income  | (326,914)                    | (302,776)         |
| EPR Properties shareholders' equity  | 1,901,766                    | 1,926,112         |
| Noncontrolling interests   | 377                          | 377               |
| Total equity   | \$1,902,143                  | \$1,926,489       |
| Total liabilities and equity   | \$3,991,392                  | \$3,702,048       |

See accompanying notes to consolidated financial statements.





## EPR PROPERTIES

## Consolidated Statements of Income

(Unaudited)

(Dollars in thousands except per share data)

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|--|-----------------------------|-----------|---------------------------|------------|
|  | 2015                        | 2014      | 2015                      | 2014       |
| Rental revenue   | \$77,860                    | \$69,918  | \$154,600                 | \$136,349  |
| Tenant reimbursements  | 3,965                       | 4,281     | 8,268                     | 8,869      |
| Other income   | 1,148                       | 187       | 1,698                     | 361        |
| Mortgage and other financing income                                | 18,285                      | 17,401    | 36,128                    | 36,064     |
| Total revenue  | 101,258                     | 91,787    | 200,694                   | 181,643    |
| Property operating expense   | 5,770                       | 5,539     | 12,127                    | 11,988     |
| Other expense  | 210                         | 219       | 312                       | 318        |
| General and administrative expense                                 | 7,756                       | 7,079     | 15,438                    | 14,541     |
| Retirement severance expense                                       | —                           | —         | 18,578                    | —          |
| Costs associated with loan refinancing                             | 243                         | —         | 243                       | —          |
| Interest expense, net  | 20,007                      | 20,555    | 38,594                    | 40,453     |
| Transaction costs  | 4,429                       | 756       | 6,035                     | 952        |
| Depreciation and amortization                                      | 21,849                      | 16,002    | 41,204                    | 31,329     |
| Income before equity in income from joint ventures and other items | 40,994                      | 41,637    | 68,163                    | 82,062     |
| Equity in income from joint ventures                               | 198                         | 267       | 362                       | 578        |
| Gain on sale of real estate  | —                           | —         | 23,924                    | 330        |
| Gain on sale of investment in a direct financing lease             | —                           | 220       | —                         | 220        |
| Income before income taxes   | 41,192                      | 42,124    | 92,449                    | 83,190     |
| Income tax expense (benefit)                                       | (7,506)                     | ) 1,360   | 920                       | 2,285      |
| Income from continuing operations                                  | \$48,698                    | \$40,764  | \$91,529                  | \$80,905   |
| Discontinued operations:   |                             |           |                           |            |
| Income (loss) from discontinued operations                         | 68                          | (4        | ) 58                      | 11         |
| Transaction (costs) benefit  | —                           | —         | —                         | 3,376      |
| Net income attributable to EPR Properties                          | 48,766                      | 40,760    | 91,587                    | 84,292     |
| Preferred dividend requirements                                    | (5,952)                     | ) (5,952) | ) (11,904)                | ) (11,904) |
| Net income available to common shareholders of EPR Properties      | \$42,814                    | \$34,808  | \$79,683                  | \$72,388   |
| Per share data attributable to EPR Properties common shareholders: |                             |           |                           |            |
| Basic earnings per share data:                                     |                             |           |                           |            |
| Income from continuing operations                                  | \$0.75                      | \$0.65    | \$1.39                    | \$1.31     |
| Income from discontinued operations                                | —                           | —         | —                         | 0.06       |
| Net income available to common shareholders                        | \$0.75                      | \$0.65    | \$1.39                    | \$1.37     |
| Diluted earnings per share data:                                   |                             |           |                           |            |
| Income from continuing operations                                  | \$0.75                      | \$0.65    | \$1.39                    | \$1.30     |
| Income from discontinued operations                                | —                           | —         | —                         | 0.06       |
| Net income available to common shareholders                        | \$0.75                      | \$0.65    | \$1.39                    | \$1.36     |
| Shares used for computation (in thousands):                        |                             |           |                           |            |
| Basic  | 57,200                      | 53,458    | 57,156                    | 53,002     |
| Diluted  | 57,446                      | 53,654    | 57,408                    | 53,189     |

See accompanying notes to consolidated financial statements.



## EPR PROPERTIES

## Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2015                        | 2014     | 2015                      | 2014     |
| Net income attributable to EPR Properties           | \$48,766                    | \$40,760 | \$91,587                  | \$84,292 |
| Other comprehensive income (loss):                  |                             |          |                           |          |
| Foreign currency translation adjustment             | 2,390                       | 7,856    | (14,912                   | ) (632   |
| Change in unrealized gain (loss) on derivatives     | (2,812                      | ) (8,760 | ) 10,636                  | (2,336   |
| Comprehensive income attributable to EPR Properties | \$48,344                    | \$39,856 | \$87,311                  | \$81,324 |

See accompanying notes to consolidated financial statements.

## EPR PROPERTIES

## Consolidated Statements of Changes in Equity

Six Months Ended June 30, 2015

(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, 2014                                      | 58,952,404                  | \$589 | 13,850,000                    | \$139 | \$2,283,440                | \$(67,846)      | \$12,566                               | \$(302,776)                           | \$377                    | \$1,926,489 |
| Restricted share units issued to Trustees                         | 18,036                      | —     | —                             | —     | —                          | —               | —                                      | —                                     | —                        | —           |
| Issuance of nonvested shares, net                                 | 206,185                     | 2     | —                             | —     | 1,941                      | (36)            | —                                      | —                                     | —                        | 1,907       |
| Purchase of common shares for vesting                             | —                           | —     | —                             | —     | —                          | (8,223)         | —                                      | —                                     | —                        | (8,223)     |
| Amortization of nonvested shares and restricted share units       | —                           | —     | —                             | —     | 3,154                      | —               | —                                      | —                                     | —                        | 3,154       |
| Share option expense  | —                           | —     | —                             | —     | 550                        | —               | —                                      | —                                     | —                        | 550         |
| Share-based compensation included in retirement severance expense | —                           | —     | —                             | —     | 6,377                      | —               | —                                      | —                                     | —                        | 6,377       |
| Foreign currency translation adjustment                           | —                           | —     | —                             | —     | —                          | —               | (14,912)                               | —                                     | —                        | (14,912)    |
| Change in unrealized gain/loss on derivatives                     | —                           | —     | —                             | —     | —                          | —               | 10,636                                 | —                                     | —                        | 10,636      |
| Net income  | —                           | —     | —                             | —     | —                          | —               | —                                      | 91,587                                | —                        | 91,587      |
|   | 5,659                       | —     | —                             | —     | 337                        | —               | —                                      | —                                     | —                        | 337         |

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|  |            |       |            |       |             |            |         |             |       |             |
|--|------------|-------|------------|-------|-------------|------------|---------|-------------|-------|-------------|
| Issuances of common shares                     |            |       |            |       |             |            |         |             |       |             |
| Stock option exercises, net                    | 22,625     | 1     | —          | —     | 1,104       | (1,139 )   | —       | —           | —     | (34 )       |
| Dividends to common and preferred shareholders | —          | —     | —          | —     | —           | —          | —       | (115,725 )  | —     | (115,725 )  |
| Balance at June 30, 2015                       | 59,204,909 | \$592 | 13,850,000 | \$139 | \$2,296,903 | \$(77,244) | \$8,290 | \$(326,914) | \$377 | \$1,902,143 |

See accompanying notes to consolidated financial statements.

## EPR PROPERTIES

## Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2015                      | 2014     |
| Operating activities:   |                           |          |
| Net income  | \$91,587                  | \$84,292 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |          |
| Income from discontinued operations   | (58                       | ) (3,387 |
| Gain on sale of real estate   | (23,924                   | ) (330   |
| Deferred income tax expense   | 177                       | 1,249    |
| Gain on sale of investment in a direct financing lease                            | —                         | (220     |
| Costs associated with loan refinancing  | 243                       | —        |
| Equity in income from joint ventures  | (362                      | ) (578   |
| Depreciation and amortization   | 41,204                    | 31,329   |
| Amortization of deferred financing costs  | 2,269                     | 2,076    |
| Amortization of above market leases   | 97                        | 96       |
| Share-based compensation expense to management and Trustees                       | 4,057                     | 4,671    |
| Share-based compensation expense included in retirement severance expense         | 6,377                     | —        |
| Decrease (increase) in restricted cash  | 464                       | (2,671   |
| Increase in mortgage notes accrued interest receivable                            | (3,009                    | ) (236   |
| Increase in accounts receivable, net  | (9,314                    | ) (533   |
| Increase in direct financing lease receivable                                     | (1,882                    | ) (1,682 |
| Increase in other assets  | (2,057                    | ) (4,641 |
| Increase (decrease) in accounts payable and accrued liabilities                   | 6,035                     | (2       |
| Increase in unearned rents and interest   | 7,977                     | 4,801    |
| Net operating cash provided by continuing operations                              | 119,881                   | 114,234  |
| Net operating cash provided by discontinued operations                            | 526                       | 120      |
| Net cash provided by operating activities   | 120,407                   | 114,354  |