

EPR PROPERTIES  
Form 10-Q  
April 30, 2014

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, 2014  
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)

(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 April 29, 2014, there were 53,448,240 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;

• 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 litigation such as casino licensing, 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;

• 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;

• 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, 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;

Our real estate investments are relatively illiquid;

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 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, 2013 filed with the Securities and Exchange Commission ("SEC") on February 28, 2014.

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
<b><u>PART I</u></b>	<b><u>1</u></b>
Item 1. Financial Statements	<u>1</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>43</u>
Item 4. Controls and Procedures	<u>43</u>
<b><u>PART II</u></b>	<b><u>44</u></b>
Item 1. Legal Proceedings	<u>44</u>
Item 1A. Risk Factors	<u>44</u>
Item 2. Unregistered Sale of Equity Securities and Use of Proceeds	<u>45</u>
Item 3. Defaults Upon Senior Securities	<u>45</u>
Item 4. Mine Safety Disclosures	<u>45</u>
Item 5. Other Information	<u>45</u>
Item 6. Exhibits	<u>46</u>

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## EPR PROPERTIES

## Consolidated Balance Sheets

(Dollars in thousands except share data)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Rental properties, net of accumulated depreciation of \$422,463 and \$409,643 at March 31, 2014 and December 31, 2013, respectively	\$2,089,933	\$2,104,151
Land held for development	202,552	201,342
Property under development	138,586	89,473
Mortgage notes and related accrued interest receivable	490,840	486,337
Investment in a direct financing lease, net	242,905	242,212
Investment in joint ventures	5,586	5,275
Cash and cash equivalents	20,406	7,958
Restricted cash	19,568	9,714
Deferred financing costs, net	22,778	23,344
Accounts receivable, net	41,616	42,538
Other assets	64,343	59,932
Total assets	\$3,339,113	\$3,272,276
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$47,526	\$72,327
Common dividends payable	15,232	13,601
Preferred dividends payable	5,952	5,952
Unearned rents and interest	27,281	17,046
Debt	1,482,608	1,475,336
Total liabilities	1,578,599	1,584,262
Equity:		
Common Shares, \$.01 par value; 75,000,000 shares authorized; and 55,227,234 and 53,361,261 shares issued at March 31, 2014 and December 31, 2013, respectively	552	534
Preferred Shares, \$.01 par value; 25,000,000 shares authorized:		
5,400,000 Series C convertible shares issued at March 31, 2014 and December 31, 2013; liquidation preference of \$135,000,000	54	54
3,450,000 Series E convertible shares issued at March 31, 2014 and December 31, 2013; liquidation preference of \$86,250,000	35	35
5,000,000 Series F shares issued at March 31, 2014 and December 31, 2013; liquidation preference of \$125,000,000	50	50
Additional paid-in-capital	2,089,868	2,003,863
Treasury shares at cost: 1,779,690 and 1,706,109 common shares at March 31, 2014 and December 31, 2013, respectively	(65,857)	(62,177)
Accumulated other comprehensive income	15,129	17,193
Distributions in excess of net income	(279,694)	(271,915)
EPR Properties shareholders' equity	1,760,137	1,687,637
Noncontrolling interests	377	377
Total equity	\$1,760,514	\$1,688,014
Total liabilities and equity	\$3,339,113	\$3,272,276

See accompanying notes to consolidated financial statements.



## EPR PROPERTIES

## Consolidated Statements of Income

(Unaudited)

(Dollars in thousands except per share data)

	Three Months Ended March 31,	
	2014	2013
Rental revenue	\$66,431	\$60,388
Tenant reimbursements	4,588	4,744
Other income	174	24
Mortgage and other financing income	18,664	17,795
Total revenue	89,857	82,951
Property operating expense	6,449	7,035
Other expense	98	149
General and administrative expense	7,462	6,652
Gain on early extinguishment of debt	—	(4,539)
Interest expense, net	19,899	19,989
Transaction costs	196	318
Depreciation and amortization	15,327	12,822
Income before equity in income from joint ventures and other items	40,426	40,525
Equity in income from joint ventures	311	351
Gain on sale of land	330	—
Income before income taxes	41,067	40,876
Income tax expense	925	—
Income from continuing operations	\$40,142	\$40,876
Discontinued operations:		
Income (loss) from discontinued operations	15	(235)
Transaction (costs) benefit	3,376	—
Gain on sale of real estate	—	565
Net income attributable to EPR Properties	43,533	41,206
Preferred dividend requirements	(5,952)	(5,952)
Net income available to common shareholders of EPR Properties	\$37,581	\$35,254
Per share data attributable to EPR Properties common shareholders:		
Basic earnings per share data:		
Income from continuing operations	\$0.65	\$0.74
Income from discontinued operations	0.07	0.01
Net income available to common shareholders	\$0.72	\$0.75
Diluted earnings per share data:		
Income from continuing operations	\$0.65	\$0.74
Income from discontinued operations	0.06	0.01
Net income available to common shareholders	\$0.71	\$0.75
Shares used for computation (in thousands):		
Basic	52,541	46,854
Diluted	52,719	47,047

See accompanying notes to consolidated financial statements.

EPR PROPERTIES

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income attributable to EPR Properties	\$43,533	\$41,206
Other comprehensive income (loss):		
Foreign currency translation adjustment	(8,488	) (3,004
Change in unrealized gain on derivatives	6,424	2,496
Comprehensive income attributable to EPR Properties	\$41,469	\$40,698

See accompanying notes to consolidated financial statements.

## EPR PROPERTIES

## Consolidated Statements of Changes in Equity

Three Months Ended March 31, 2014

(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, 2013	53,361,261	\$534	13,850,000	\$139	\$2,003,863	\$(62,177)	\$17,193	\$(271,915)	\$377	\$1,688,014
Issuance of nonvested shares, net	280,193	3	—	—	3,571	(2,891)	—	—	—	683
Amortization of nonvested shares	—	—	—	—	1,697	—	—	—	—	1,697
Share option expense	—	—	—	—	363	—	—	—	—	363
Foreign currency translation adjustment	—	—	—	—	—	—	(8,488)	—	—	(8,488)
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	6,424	—	—	6,424
Net income	—	—	—	—	—	—	—	43,533	—	43,533
Issuances of common shares	1,566,675	15	—	—	79,606	—	—	—	—	79,621
Stock option exercises, net	19,105	—	—	—	768	(789)	—	—	—	—