

ISTAR FINANCIAL INC
Form 10-Q
November 09, 2007

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**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 September 30, 2007

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 FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

95-6881527
(I.R.S. Employer
Identification Number)

1114 Avenue of the Americas, 39th Floor
New York, NY
(Address of principal executive offices)

10036
(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 12 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 is an accelerated filer, or a non-accelerated filer, see definition of "accelerated filer" and "large accelerated filer" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2007 there were 126,284,275 shares of common stock, \$0.001/par value per share of iStar Financial Inc., ("Common Stock") outstanding.

iStar Financial Inc.

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PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Financial Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

(unaudited)

	As of September 30, 2007	As of December 31, 2006
	<u> </u>	<u> </u>
ASSETS		
Loans and other lending investments, net	\$ 10,569,207	\$ 6,799,850
Corporate tenant lease assets, net	3,282,976	3,084,794
Other investments	472,221	407,617
Investments in joint ventures	390,863	382,030
Assets held for sale	76,590	9,398
Cash and cash equivalents	102,044	105,951
Restricted cash	33,340	28,986
Accrued interest and operating lease income receivable	141,373	72,954
Deferred operating lease income receivable	95,339	79,498
Deferred expenses and other assets	97,697	71,181
Goodwill	43,055	17,736
	<u> </u>	<u> </u>
Total assets	\$ 15,304,705	\$ 11,059,995
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 466,787	\$ 200,957
Debt obligations	11,748,508	7,833,437
	<u> </u>	<u> </u>
Total liabilities	12,215,295	8,034,394
	<u> </u>	<u> </u>
Commitments and contingencies		
Minority interest in consolidated entities	54,810	38,738
Shareholders' equity:		
Series D Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 4,000 shares issued and outstanding at September 30, 2007 and December 31, 2006	4	4
Series E Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 5,600 shares issued and outstanding at September 30, 2007 and December 31, 2006	6	6
Series F Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 4,000 shares issued and outstanding at September 30, 2007 and December 31, 2006	4	4
Series G Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 3,200 shares issued and outstanding at September 30, 2007 and December 31, 2006	3	3
Series I Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 5,000 shares issued and outstanding at September 30, 2007 and December 31, 2006	5	5
High Performance Units	9,800	9,800
Common Stock, \$0.001 par value, 200,000 shares authorized, 128,283 issued and 126,272 outstanding at September 30, 2007 and 127,964 issued and 126,565 outstanding at December 31, 2006	127	127
Options	1,392	1,696
Additional paid-in capital	3,475,401	3,464,229

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	As of September 30, 2007	As of December 31, 2006
Retained earnings (deficit)	(417,675)	(479,695)
Accumulated other comprehensive income (See Note 15)	12,007	16,956
Treasury stock (at cost)	(46,474)	(26,272)
	<hr/>	<hr/>
Total shareholders' equity	3,034,600	2,986,863
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 15,304,705	\$ 11,059,995
	<hr/>	<hr/>

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

iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Interest income	\$ 316,855	\$ 153,053	\$ 689,880	\$ 414,177
Operating lease income	82,650	76,097	240,118	228,951
Other income	19,890	20,369	87,165	57,746
Total revenue	419,395	249,519	1,017,163	700,874
Costs and expenses:				
Interest expense	173,376	115,214	441,077	309,999
Operating costs corporate tenant lease assets	7,937	6,337	21,833	22,928
Depreciation and amortization	24,802	18,980	67,665	56,546
General and administrative	51,266	27,492	128,238	67,048
Provision for loan losses	62,000	2,000	72,000	5,000
Other expense	2,949		2,949	
Total costs and expenses	322,330	170,023	733,762	461,521
Income before equity in earnings from joint ventures, minority interest and other items	97,065	79,496	283,401	239,353
Equity in earnings from joint ventures	2,598	1,443	1,145	2,496
Minority interest in consolidated entities	(277)	(291)	302	(1,360)
Income from continuing operations	99,386	80,648	284,848	240,489
Income from discontinued operations	5,213	6,738	16,132	20,848
Gain from discontinued operations, net	1,045	17,264	7,823	21,800
Net income	105,644	104,650	308,803	283,137
Preferred dividend requirements	(10,580)	(10,580)	(31,740)	(31,740)
Net income allocable to common shareholders and HPU holders(1)	\$ 95,064	\$ 94,070	\$ 277,063	\$ 251,397
Per common share data(2):				
Income from continuing operations per common share:				
Basic	\$ 0.69	\$ 0.60	\$ 1.96	\$ 1.79
Diluted	\$ 0.68	\$ 0.60	\$ 1.94	\$ 1.78
Net income per common share:				
Basic	\$ 0.74	\$ 0.81	\$ 2.14	\$ 2.16
Diluted	\$ 0.73	\$ 0.80	\$ 2.12	\$ 2.14
Weighted average number of common shares basic	126,488	113,318	126,644	113,281
Weighted average number of common shares diluted	127,508	114,545	127,782	114,439
Per HPU share data(2):				
Income from continuing operations per HPU share:				

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Basic	\$ 129.94	\$ 114.14	\$ 369.87	\$ 340.14
Diluted	\$ 128.94	\$ 113.00	\$ 366.74	\$ 336.86
Net income per HPU share:				
Basic	\$ 139.07	\$ 153.27	\$ 404.87	\$ 409.67
Diluted	\$ 138.07	\$ 151.67	\$ 401.47	\$ 405.73
Weighted average number of HPU shares basic	15	15	15	15
Weighted average number of HPU shares diluted	15	15	15	15

Explanatory Notes:

- (1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program (see Note 13).
- (2) See Note 14 Earnings Per Share for additional information.

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

iStar Financial Inc.
Consolidated Statement of Changes in Shareholders' Equity
(In thousands)
(unaudited)

	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series I Preferred Stock	HPU's	Common Stock at Par	Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2006	\$ 4	\$ 6	\$ 4	\$ 3	\$ 5	\$ 9,800	\$ 127	\$ 1,696	\$ 3,464,229	\$ (479,695)	\$ 16,956	\$ (26,272)	\$ 2,986,863
Exercise of options								(304)	3,192				2,888
Dividends declared preferred										(31,740)			(31,740)
Dividends declared common										(210,394)			(210,394)
Dividends declared HPU										(4,649)			(4,649)
Repurchase of stock												(20,202)	(20,202)
Issuance of stock vested restricted stock units									6,385				6,385
Issuance of stock DRIP/stock purchase plan									1,595				1,595
Net income for the period										308,803			308,803
Change in accumulated other comprehensive income											(4,949)		(4,949)
Balance at September 30, 2007	\$ 4	\$ 6	\$ 4	\$ 3	\$ 5	\$ 9,800	\$ 127	\$ 1,392	\$ 3,475,401	\$ (417,675)	\$ 12,007	\$ (46,474)	\$ 3,034,600

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

iStar Financial Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 308,803	\$ 283,137
Adjustments to reconcile net income to cash flows from operating activities:		
Minority interest in consolidated entities	(302)	1,360
Non-cash expense for stock-based compensation	12,300	9,584
Shares withheld for employee taxes on stock based compensation arrangements	(3,053)	(460)
Depreciation, depletion and amortization	71,547	62,498
Amortization of deferred financing costs	19,091	16,911
Amortization of discounts/premiums, deferred interest and costs on lending investments	(142,680)	(54,125)
Discounts, loan fees and deferred interest received	46,697	40,529
Equity in earnings of unconsolidated entities	(6,390)	(2,496)
Distributions from operations of unconsolidated entities	35,655	12,372
Deferred operating lease income receivable	(17,153)	(4,109)
Gain from discontinued operations, net	(7,823)	(14,219)
Provision for loan losses	72,000	5,000
Provision for deferred taxes	1,597	
Other non-cash adjustments	769	
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable	(25,327)	(35,628)
Changes in deferred expenses and other assets	(729)	(32,263)
Changes in accounts payable, accrued expenses and other liabilities	57,241	20,628
Cash flows from operating activities	422,243	308,719
Cash flows from investing activities:		
New investment originations	(2,761,096)	(2,757,764)
Cash paid for acquisition of Fremont CRE	(1,891,571)	
Add-on fundings under existing loan commitments	(1,819,407)	(463,086)
Net proceeds from sales of corporate tenant lease assets	70,227	54,391
Repayments of and principal collections on loans and other lending investments	2,361,172	1,598,694
Contributions to unconsolidated entities	(56,506)	(10,340)
Distributions from unconsolidated entities	143,224	(534)
Capital improvements for build-to-suit facilities	(43,334)	(41,249)
Capital improvement projects on corporate tenant lease assets	(5,538)	(5,730)
Other capital expenditures on corporate tenant lease assets	(15,988)	(8,460)
Other investing activities, net	7,129	
Cash flows from investing activities	(4,011,688)	(1,634,078)
Cash flows from financing activities:		
Borrowings under secured revolving credit facility	140,000	187,073
Repayments under secured revolving credit facility	(140,000)	(187,073)
Borrowings under unsecured revolving credit facilities	21,388,670	4,794,154
Repayments under unsecured revolving credit facilities	(20,182,709)	(5,339,568)
Borrowings under interim financing facility	1,900,000	
Borrowings under secured term loans	18,321	85,228
Repayments under secured term loans	(127,064)	(28,522)
Borrowings under unsecured notes	1,035,288	2,182,214
Repayments under unsecured notes	(200,000)	(50,000)
Borrowings under foreign lines of credit		146,950

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For the Nine Months Ended
September 30,

Repayments under foreign lines of credit		(155,181)
Contributions from minority interest partners	17,440	21,846