

MEDICAL PROPERTIES TRUST INC
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 001-32559

MEDICAL PROPERTIES TRUST, INC.

MPT OPERATING PARTNERSHIP, L.P.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	20-0191742
DELAWARE (State or other jurisdiction of incorporation or organization)	20-0242069 (I. R. S. Employer Identification No.)
1000 URBAN CENTER DRIVE, SUITE 501	
BIRMINGHAM, AL (Address of principal executive offices)	35242 (Zip Code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (205) 969-3755	

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 <input checked="" type="checkbox"/> (Medical Properties Trust, Inc. only)	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (MPT Operating Partnership, L.P. only)	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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 November 6, 2013, Medical Properties Trust, Inc. had 161,571,911 shares of common stock, par value \$0.001, outstanding.

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EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three and nine months ended September 30, 2013 of Medical Properties Trust, Inc., a Maryland corporation, and MPT Operating Partnership, L.P., a Delaware limited partnership, through which Medical Properties Trust, Inc. conducts substantially all of its operations. Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our, our company, Medical Properties, MPT, or the company refer to Medical Properties Trust, Inc. together with its consolidated subsidiaries, including MPT Operating Partnership, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to our operating partnership or the operating partnership refer to MPT Operating Partnership, L.P. together with its consolidated subsidiaries.

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MEDICAL PROPERTIES TRUST, INC. AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2013

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Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)	September 30, 2013 (Unaudited)	December 31, 2012 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	\$ 1,606,432	\$ 1,262,099
Real estate held for sale		16,497
Mortgage loans	368,650	368,650
Net investment in direct financing leases	403,512	314,412
Gross investment in real estate assets	2,378,594	1,961,658
Accumulated depreciation and amortization	(150,666)	(124,615)
Net investment in real estate assets	2,227,928	1,837,043
Cash and cash equivalents	12,124	37,311
Interest and rent receivable	54,505	45,289
Straight-line rent receivable	44,240	35,860
Other loans	161,245	159,243
Other assets	63,108	64,140
Total Assets	\$ 2,563,150	\$ 2,178,886
Liabilities and Equity		
Liabilities		
Debt, net	\$ 1,086,973	\$ 1,025,160
Accounts payable and accrued expenses	73,852	65,961
Deferred revenue	23,229	20,609
Lease deposits and other obligations to tenants	20,527	17,342
Total liabilities	1,204,581	1,129,072
Equity		
Preferred stock, \$0.001 par value. Authorized 10,000 shares; no shares outstanding		
Common stock, \$0.001 par value. Authorized 250,000 shares; issued and outstanding 160,880 shares at September 30, 2013 and 136,335 shares at	160	136

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December 31, 2012		
Additional paid in capital	1,615,230	1,295,916
Distributions in excess of net income	(246,865)	(233,494)
Accumulated other comprehensive loss	(9,694)	(12,482)
Treasury shares, at cost	(262)	(262)
Total Equity	1,358,569	1,049,814
Total Liabilities and Equity	\$ 2,563,150	\$ 2,178,886

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Rent billed	\$ 31,878	\$ 30,298	\$ 95,074	\$ 90,680
Straight-line rent	2,853	2,745	8,260	5,429
Income from direct financing leases	11,298	5,773	29,284	12,979
Interest and fee income	14,427	14,037	43,282	33,486
Total revenues	60,456	52,853	175,900	142,574
Expenses				
Real estate depreciation and amortization	8,789	8,308	26,051	24,826
Property-related	458	214	1,520	1,027
General and administrative	6,380	7,052	21,423	21,341
Acquisition expenses	4,179	410	6,457	4,115
Total operating expenses	19,806	15,984	55,451	51,309
Operating income	40,650	36,869	120,449	91,265
Other income (expense)				
Other income (expense)	3	(23)	(245)	(55)
Earnings from equity and other interests	843	1,065	2,511	1,944
Interest expense	(15,830)	(15,046)	(45,896)	(42,730)
Net other expense	(14,984)	(14,004)	(43,630)	(40,841)
Income from continuing operations	25,666	22,865	76,819	50,424
Income from discontinued operations	37	8,643	2,498	11,050
Net income	25,703	31,508	79,317	61,474
Net income attributable to non-controlling interests	(55)	(44)	(165)	(130)
Net income attributable to MPT common stockholders	\$ 25,648	\$ 31,464	\$ 79,152	\$ 61,344

Earnings per common share basic

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Income from continuing operations attributable to MPT common stockholders	\$ 0.16	\$ 0.17	\$ 0.51	\$ 0.38
Income from discontinued operations attributable to MPT common stockholders		0.06	0.02	0.08
Net income attributable to MPT common stockholders	\$ 0.16	\$ 0.23	\$ 0.53	\$ 0.46

Earnings per common share diluted

Income from continuing operations attributable to MPT common stockholders	\$ 0.16	\$ 0.17	\$ 0.51	\$ 0.38
Income from discontinued operations attributable to MPT common stockholders		0.06	0.02	0.08
Net income attributable to MPT common stockholders	\$ 0.16	\$ 0.23	\$ 0.53	\$ 0.46

Weighted average shares outstanding:

Basic	154,758	134,781	148,204	131,467
Diluted	155,969	134,782	149,517	131,467
Dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.60

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 25,703	\$ 31,508	\$ 79,317	\$ 61,474
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate swap	182	(443)	2,788	(989)
Total comprehensive income (loss)	25,885	31,065	82,105	60,485
Comprehensive income attributable to non-controlling interests	(55)	(44)	(165)	(130)
Comprehensive income (loss) attributable to MPT common stockholders	\$ 25,830	\$ 31,021	\$ 81,940	\$ 60,355

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Operating activities		
Net income	\$ 79,317	\$ 61,474
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,000	26,899
Straight-line rent revenue	(8,260)	(4,100)
Direct financing lease interest accretion	(4,106)	(2,050)
Share-based compensation	6,019	5,430
Gain on sale of real estate	(2,054)	(7,278)
Amortization and write-off of deferred financing costs and debt discount	2,624	2,577
Other adjustments	4,156	(3,415)
Changes in:		
Interest and rent receivable	(9,216)	(12,232)
Accounts payable and accrued expenses	6,084	7,404
Net cash provided by operating activities	101,564	74,709
Investing activities		
Cash paid for acquisitions and other related investments	(371,500)	(606,500)
Principal received on loans receivable	4,694	9,507
Net proceeds from sale of real estate	18,409	34,100
Investment in loans receivable	(1,445)	(1,293)
Construction in progress and other	(63,422)	(35,920)
Net cash used for investing activities	(413,264)	(600,106)
Financing activities		
Revolving credit facilities, net	(80,000)	35,400
Additions to term debt	153,000	300,000
Payments of term debt	(11,185)	(171)
Distributions paid	(87,928)	(76,770)
Proceeds from sale of common shares, net of offering costs	313,319	220,107
Lease deposits and other obligations to tenants	3,589	(13,391)
Debt issuance costs paid and other financing activities	(4,282)	(6,341)
Net cash provided by financing activities	286,513	458,834

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Decrease in cash and cash equivalents for period	(25,187)	(66,563)
Cash and cash equivalents at beginning of period	37,311	102,726
Cash and cash equivalents at end of period	\$ 12,124	\$ 36,163
Interest paid	\$ 38,997	\$ 31,350
Supplemental schedule of non-cash investing activities:		
Loan conversion to equity interest	\$	\$ 1,648
Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	\$ 32,381	\$ 27,181

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

(In thousands)	September 30, 2013 (Unaudited)	December 31, 2012 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	\$ 1,606,432	\$ 1,262,099
Real estate held for sale		16,497
Mortgage loans	368,650	368,650
Net investment in direct financing leases	403,512	314,412
Gross investment in real estate assets	2,378,594	1,961,658
Accumulated depreciation and amortization	(150,666)	(124,615)
Net investment in real estate assets	2,227,928	1,837,043
Cash and cash equivalents	12,124	37,311
Interest and rent receivable	54,505	45,289
Straight-line rent receivable	44,240	35,860
Other loans	161,245	159,243
Other assets	63,108	64,140
Total Assets	\$ 2,563,150	\$ 2,178,886
Liabilities and Capital		
Liabilities		
Debt, net	\$ 1,086,973	\$ 1,025,160
Accounts payable and accrued expenses	41,409	38,177
Deferred revenue	23,229	20,609
Lease deposits and other obligations to tenants	20,527	17,342
Payable due to Medical Properties Trust, Inc.	32,053	27,394
Total liabilities	1,204,191	1,128,682
Capital		
General Partner issued and outstanding 1,603 units at September 30, 2013 and 1,357 units at December 31, 2012	13,692	10,630
Limited Partners:		
Common units issued and outstanding 159,277 units at September 30, 2013 and 134,978 units at December 31, 2012	1,354,961	1,052,056
LTIP units issued and outstanding 221 units at September 30, 2013 and December 31, 2012		

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Accumulated other comprehensive loss	(9,694)	(12,482)
Total capital	1,358,959	1,050,204
Total Liabilities and Capital	\$ 2,563,150	\$ 2,178,886

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES**

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per unit amounts)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Rent billed	\$ 31,878	\$ 30,298	\$ 95,074	\$ 90,680
Straight-line rent	2,853	2,745	8,260	5,429
Income from direct financing leases	11,298	5,773	29,284	12,979
Interest and fee income	14,427	14,037	43,282	33,486
Total revenues	60,456	52,853	175,900	142,574
Expenses				
Real estate depreciation and amortization	8,789	8,308	26,051	24,826
Property-related	458	214	1,520	1,027
General and administrative	6,380	7,052	21,423	21,341
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Total operating expenses	19,806	15,984	55,451	51,309
Operating income	40,650	36,869	120,449	91,265
Other income (expense)				
Interest and other income (expense)	3	(23)	(245)	(55)
Earnings from equity and other interests	843	1,065	2,511	1,944
Interest expense	(15,830)	(15,046)	(45,896)	(42,730)
Net other expense	(14,984)	(14,004)	(43,630)	(40,841)
Income from continuing operations	25,666	22,865	76,819	50,424
Income from discontinued operations	37	8,643	2,498	11,050
Net income	25,703	31,508	79,317	61,474
Net income attributable to non-controlling interests	(55)	(44)	(165)	(130)
Net income attributable to MPT Operating Partnership partners	\$ 25,648	\$ 31,464	\$ 79,152	\$ 61,344

Earnings per units basic

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Income from continuing operations attributable to MPT Operating Partnership partners	\$	0.16	\$	0.17	\$	0.51	\$	0.38
Income from discontinued operations attributable to MPT Operating Partnership partners				0.06		0.02		0.08
Net income attributable to MPT Operating Partnership partners	\$	0.16	\$	0.23	\$	0.53	\$	0.46

Earnings per units diluted

Income from continuing operations attributable to MPT Operating Partnership partners	\$	0.16	\$	0.17	\$	0.51	\$	0.38
Income from discontinued operations attributable to MPT Operating Partnership partners				0.06		0.02		0.08
Net income attributable to MPT Operating Partnership partners	\$	0.16	\$	0.23	\$	0.53	\$	0.46

Weighted average units outstanding:

Basic		154,758		134,781		148,204		131,467
Diluted		155,969		134,782		149,517		131,467
Dividends declared per unit	\$	0.20	\$	0.20	\$	0.60	\$	0.60

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)	For the Three Months		For the Nine Months	
	Ended September		Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 25,703	\$ 31,508	\$ 79,317	\$ 61,474
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate swap	182	(443)	2,788	(989)
Total comprehensive income (loss)	25,885	31,065	82,105	60,485
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See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2013 2012	
	(In thousands)	
Operating activities		
Net income	\$ 79,317	\$ 61,474
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,000	26,899
Straight-line rent revenue	(8,260)	(4,100)
Direct financing lease interest accretion	(4,106)	(2,050)
Share-based compensation	6,019	5,430
Gain on sale of real estate	(2,054)	(7,278)
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Financing activities		
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Additions to term debt	153,000	300,000
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Proceeds from sale of units, net of offering costs	313,319	220,107
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Debt issuance costs paid and other financing activities	(4,282)	(6,341)
Net cash provided by financing activities	286,513	458,834

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Increase in cash and cash equivalents for period	(25,187)	(66,563)
Cash and cash equivalents at beginning of period	37,311	102,726

Cash and cash equivalents at end of period	\$ 12,124	\$ 36,163
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Interest paid	\$ 38,997	\$ 31,350
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Supplemental schedule of non-cash investing activities:

Loan conversion to equity interest	\$	\$ 1,648
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Supplemental schedule of non-cash financing activities:

Distributions declared, unpaid	\$ 32,381	\$ 27,181
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See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC., AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003, under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in, owning, and leasing commercial real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P., (the Operating Partnership) through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis except where material differences exist.

We have operated as a real estate investment trust (REIT) since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will not be subject to U.S. federal income tax, provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income. Certain activities we undertake must be conducted by entities which we elected to be treated as taxable REIT subsidiaries (TRSs). Our TRSs are subject to both U.S. federal and state income taxes.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. All of our properties are currently located in the United States; however, we have committed to acquire the RHM Portfolio (as more fully described in Note 10) which will represent our first acquisition (if consummated) outside of the United States.

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, including rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by 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. Operating results for the three and nine month periods ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. During the nine months ended September 30, 2013, there were no material changes to these policies.

Reclassifications: Certain reclassifications have been made to the condensed consolidated financial statements to conform to the 2013 consolidated financial statement presentation. These reclassifications had no impact on stockholders' equity or net income.

Variable Interest Entities

At September 30, 2013, we had loans to and/or equity investments in several variable interest entities (VIEs) for which we are not the primary beneficiary. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at September 30, 2013 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset Type	
		Classification	Carrying Amount(2)
Loans, net	\$ 283,157	Mortgage and other loans	\$ 229,646
Equity investments	\$ 19,519	Other assets	\$ 5,079

(1)