

CBL & ASSOCIATES PROPERTIES INC

Form 10-Q

November 09, 2015

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UNITED STATES OF AMERICA
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, 2015

Or

o 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. 1-12494 (CBL & ASSOCIATES PROPERTIES, INC.)

COMMISSION FILE NO. 333-182515-01 (CBL & ASSOCIATES LIMITED PARTNERSHIP)

CBL & ASSOCIATES PROPERTIES, INC.
CBL & ASSOCIATES LIMITED PARTNERSHIP
(Exact Name of registrant as specified in its charter)

DELAWARE (CBL & ASSOCIATES PROPERTIES, INC.)	62-1545718
DELAWARE (CBL & ASSOCIATES LIMITED PARTNERSHIP)	62-1542285
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2030 Hamilton Place Blvd., Suite 500, Chattanooga, TN 37421-6000

(Address of principal executive office, including zip code)

423.855.0001

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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.

CBL & Associates Properties, Inc.	Yes x	No o
CBL & Associates Limited Partnership	Yes x	No o

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).

CBL & Associates Properties, Inc.	Yes x	No o
CBL & Associates Limited Partnership	Yes x	No o

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.

CBL & Associates Properties, Inc.

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
CBL & Associates Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

CBL & Associates Properties, Inc. Yes No

CBL & Associates Limited Partnership Yes No

As of October 30, 2015, there were 170,496,444 shares of CBL & Associates Properties, Inc.'s common stock, par value \$0.01 per share, outstanding.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2015 of CBL & Associates Properties, Inc. and CBL & Associates Limited Partnership. Unless stated otherwise or the context otherwise requires, references to the "Company" mean CBL & Associates Properties, Inc. and its subsidiaries. References to the "Operating Partnership" mean CBL & Associates Limited Partnership and its subsidiaries. The terms "we," "us" and "our" refer to the Company or the Company and the Operating Partnership collectively, as the context requires.

The Company is a real estate investment trust ("REIT") whose stock is traded on the New York Stock Exchange. The Company is the 100% owner of two qualified REIT subsidiaries, CBL Holdings I, Inc. and CBL Holdings II, Inc. At September 30, 2015, CBL Holdings I, Inc., the sole general partner of the Operating Partnership, owned a 1.0% general partner interest in the Operating Partnership and CBL Holdings II, Inc. owned an 84.3% limited partner interest for a combined interest held by the Company of 85.3%.

As the sole general partner of the Operating Partnership, the Company's subsidiary, CBL Holdings I, Inc., has exclusive control of the Operating Partnership's activities. Management operates the Company and the Operating Partnership as one business. The management of the Company consists of the same individuals that manage the Operating Partnership. The Company's only material asset is its indirect ownership of partnership interests of the Operating Partnership. As a result, the Company conducts substantially all its business through the Operating Partnership as described in the preceding paragraph. The Company also issues public equity from time to time and guarantees certain debt of the Operating Partnership. The Operating Partnership holds all of the assets and indebtedness of the Company and, through affiliates, retains the ownership interests in the Company's joint ventures. Except for the net proceeds of offerings of equity by the Company, which are contributed to the Operating Partnership in exchange for partnership units on a one-for-one basis, the Operating Partnership generates all remaining capital required by the Company's business through its operations and its incurrence of indebtedness.

We believe that combining the two quarterly reports on Form 10-Q for the Company and the Operating Partnership provides the following benefits:

- enhances investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner that management views and operates the business;

- eliminates duplicative disclosure and provides a more streamlined and readable presentation, since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and

- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

To help investors understand the differences between the Company and the Operating Partnership, this report provides separate condensed consolidated financial statements for the Company and the Operating Partnership. Noncontrolling interests, shareholders' equity and partners' capital are the main areas of difference between the condensed consolidated financial statements of the Company and those of the Operating Partnership. A single set of notes to condensed consolidated financial statements is presented that includes separate discussions for the Company and the Operating Partnership, when applicable. A combined Management's Discussion and Analysis of Financial Condition and Results of Operations section is also included that presents combined information and discrete information related to each entity, as applicable.

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In order to highlight the differences between the Company and the Operating Partnership, this report includes the following sections that provide separate financial information for the Company and the Operating Partnership:

- condensed consolidated financial statements;

certain accompanying notes to condensed consolidated financial statements, including Note 5 - Unconsolidated Affiliates, Redeemable Interests, Noncontrolling Interests and Cost Method Investments; Note 6 - Mortgage and Other Indebtedness; Note 7 - Comprehensive Income; and Note 11 - Earnings per Share and Earnings per Unit;

controls and procedures in Item 4 of Part I of this report; and

certifications of the Chief Executive Officer and Chief Financial Officer included as Exhibits 31.1 through 32.4.

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PART I – FINANCIAL INFORMATION

ITEM 1: Financial Statements

CBL & Associates Properties, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

ASSETS	September 30, 2015	December 31, 2014
Real estate assets:		
Land	\$905,628	\$847,829
Buildings and improvements	7,410,063	7,221,387
	8,315,691	8,069,216
Accumulated depreciation	(2,395,124)	(2,240,007)
	5,920,567	5,829,209
Developments in progress	123,233	117,966
Net investment in real estate assets	6,043,800	5,947,175
Cash and cash equivalents	32,437	37,938
Receivables:		
Tenant, net of allowance for doubtful accounts of \$1,884 and \$2,368 in 2015 and 2014, respectively	87,797	81,338
Other, net of allowance for doubtful accounts of \$1,219 and \$1,285 in 2015 and 2014, respectively	21,232	22,577
Mortgage and other notes receivable	18,347	19,811
Investments in unconsolidated affiliates	277,374	281,449
Intangible lease assets and other assets	214,748	226,011
	\$6,695,735	\$6,616,299
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgage and other indebtedness	\$4,821,475	\$4,700,460
Accounts payable and accrued liabilities	355,215	328,352
Total liabilities	5,176,690	5,028,812
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	28,315	37,559
Shareholders' equity:		
Preferred stock, \$.01 par value, 15,000,000 shares authorized:		
7.375% Series D Cumulative Redeemable Preferred Stock, 1,815,000 shares outstanding	18	18
6.625% Series E Cumulative Redeemable Preferred Stock, 690,000 shares outstanding	7	7
Common stock, \$.01 par value, 350,000,000 shares authorized, 170,493,734 and 170,260,273 issued and outstanding in 2015 and 2014, respectively	1,705	1,703
Additional paid-in capital	1,968,947	1,958,198
Accumulated other comprehensive income	1,494	13,411
Dividends in excess of cumulative earnings	(610,368)	(566,785)
Total shareholders' equity	1,361,803	1,406,552
Noncontrolling interests	128,927	143,376

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Total equity	1,490,730	1,549,928
	\$6,695,735	\$6,616,299

The accompanying notes are an integral part of these condensed consolidated statements.

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CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES:				
Minimum rents	\$ 170,422	\$ 169,097	\$ 505,931	\$ 506,005
Percentage rents	3,869	3,060	10,418	8,490
Other rents	4,156	3,813	13,748	13,708
Tenant reimbursements	72,461	71,330	214,818	214,322
Management, development and leasing fees	2,754	3,228	8,195	9,176
Other	8,974	8,186	24,278	25,189
Total revenues	262,636	258,714	777,388	776,890
OPERATING EXPENSES:				
Property operating	35,859	36,668	107,629	112,206
Depreciation and amortization	74,045	72,488	221,550	212,180
Real estate taxes	23,579	22,202	68,913	65,638
Maintenance and repairs	12,480	12,603	39,103	41,391
General and administrative	12,995	9,474	46,440	35,583
Loss on impairment	884	497	3,665	17,753
Other	8,787	7,396	21,191	21,331
Total operating expenses	168,629	161,328	508,491	506,082
Income from operations	94,007	97,386	268,897	270,808
Interest and other income	579	463	6,242	3,535
Interest expense	(56,451)	(60,214)	(174,362)	(179,997)
Gain on extinguishment of debt	—	18,282	256	60,942
Gain on investment	—	—	16,560	—
Equity in earnings of unconsolidated affiliates	3,508	3,936	12,212	11,038
Income tax provision	(448)	(3,083)	(2,004)	(4,266)
Income from continuing operations before gain on sales of real estate assets	41,195	56,770	127,801	162,060
Gain on sales of real estate assets	3,237	434	18,167	3,513
Income from continuing operations	44,432	57,204	145,968	165,573
Operating income (loss) of discontinued operations	—	78	—	(480)
Gain on discontinued operations	—	(2)	—	88
Net income	44,432	57,280	145,968	165,181
Net income attributable to noncontrolling interests in:				
Operating Partnership	(4,665)	(6,576)	(15,783)	(18,847)
Other consolidated subsidiaries	(2,198)	(1,362)	(4,557)	(3,740)
Net income attributable to the Company	37,569	49,342	125,628	142,594
Preferred dividends	(11,223)	(11,223)	(33,669)	(33,669)
Net income attributable to common shareholders	\$ 26,346	\$ 38,119	\$ 91,959	\$ 108,925

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CBL & Associates Properties, Inc.
 Condensed Consolidated Statements of Operations
 (In thousands, except per share data)
 (Unaudited)
 (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$0.15	\$0.22	\$0.54	\$0.64
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to common shareholders	\$0.15	\$0.22	\$0.54	\$0.64
Weighted-average common shares outstanding	170,494	170,262	170,470	170,242
Diluted per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$0.15	\$0.22	\$0.54	\$0.64
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to common shareholders	\$0.15	\$0.22	\$0.54	\$0.64
Weighted-average common and potential dilutive common shares outstanding	170,494	170,262	170,500	170,242
Amounts attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$26,346	\$38,054	\$91,959	\$109,259
Discontinued operations	—	65	—	(334)
Net income attributable to common shareholders	\$26,346	\$38,119	\$91,959	\$108,925
Dividends declared per common share	\$0.265	\$0.245	\$0.795	\$0.735

The accompanying notes are an integral part of these condensed consolidated statements.

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CBL & Associates Properties, Inc.
 Condensed Consolidated Statements of Comprehensive Income
 (In thousands)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$44,432	\$57,280	\$145,968	\$165,181
Other comprehensive income (loss):				
Unrealized holding gain on available-for-sale securities	—	4,044	242	6,240
Reclassification to net income of realized gain on available-for-sale securities	—	—	(16,560)	—
Unrealized gain on hedging instruments	975	1,148	3,074	3,021
Reclassification of hedging effect on earnings	(518)	(551)	(1,687)	(1,650)
Total other comprehensive income (loss)	457	4,641	(14,931)	7,611
Comprehensive income	44,889	61,921	131,037	172,792
Comprehensive income attributable to noncontrolling interests in:				
Operating Partnership	(4,737)	(8,071)	(12,769)	(19,978)
Other consolidated subsidiaries	(2,198)	(1,362)	(4,557)	(3,740)
Comprehensive income attributable to the Company	\$37,954	\$52,488	\$113,711	\$149,074

The accompanying notes are an integral part of these condensed consolidated statements.

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CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands, except share data)
(Unaudited)

	Equity Shareholders' Equity				Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Redeemable Noncontrolling Interests	Preferred Stock	Common Stock	Additional Paid-in Capital					
Balance, January 1, 2014	\$ 34,639	\$ 25	\$ 1,700	\$ 1,967,644	\$ 6,325	\$(570,781)	\$ 1,404,913	\$ 155,021	\$ 1,559,934
Net income	3,323	—	—	—	—	142,594	142,594	19,264	161,858
Other comprehensive income	60	—	—	—	6,480	—	6,480	1,071	7,551
Dividends declared - common stock	—	—	—	—	—	(125,144)	(125,144)	—	(125,144)
Dividends declared - preferred stock	—	—	—	—	—	(33,669)	(33,669)	—	(33,669)
Issuances of 243,648 shares of common stock and restricted common stock	—	—	3	636	—	—	639	—	639
Cancellation of 31,123 shares of restricted common stock	—	—	—	(369)	—	—	(369)	—	(369)
Amortization of deferred compensation	—	—	—	2,837	—	—	2,837	—	2,837
Redemption of Operating Partnership common units	—	—	—	—	—	—	—	(4,609)	(4,609)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	938	938
Distributions to noncontrolling interests	(7,083)	—	—	—	—	—	—	(26,997)	(26,997)
Adjustment for noncontrolling	2,193	—	—	(6,865)	—	—	(6,865)	4,672	(2,193)

interests
Adjustment to
record
redeemable

noncontrolling interests at redemption value	1,711	—	—	(1,696)	—	—	(1,696)	(15)	(1,711)
Balance, September 30, 2014	\$ 34,843	\$ 25	\$ 1,703	\$ 1,962,187	\$ 12,805	\$ (587,000)	\$ 1,389,720	\$ 149,345	\$ 1,539,065				

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CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands, except share data)
(Unaudited)
(Continued)

	Equity Shareholders' Equity				Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Redeemable Noncontrolling Interests	Preferred Stock	Common Stock	Additional Paid-in Capital					
Balance, January 1, 2015	\$ 37,559	\$ 25	\$ 1,703	\$ 1,958,198	\$ 13,411	\$(566,785)	\$ 1,406,552	\$ 143,376	\$ 1,549,928
Net income	3,865	—	—	—	—	125,628	125,628	16,475	142,103
Other comprehensive loss	(366)	—	—	—	(11,917)	—	(11,917)	(2,648)	(14,565)
Dividends declared - common stock	—	—	—	—	—	(135,542)	(135,542)	—	(135,542)
Dividends declared - preferred stock	—	—	—	—	—	(33,669)	(33,669)	—	(33,669)
Issuances of 275,359 shares of common stock and restricted common stock	—	—	3	636	—	—	639	—	639
Cancellation of 41,898 shares of restricted common stock	—	—	(1)	(740)	—	—	(741)	—	(741)
Performance stock units	—	—	—	468	—	—	468	—	468
Amortization of deferred compensation	—	—	—	3,384	—	—	3,384	—	3,384
Redemptions of Operating Partnership common units	—	—	—	—	—	—	—	(286)	(286)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	607	607
Distributions to noncontrolling	(5,486)	—	—	—	—	—	—	(28,856)	(28,856)

interests

Adjustment for

noncontrolling 2,258 — — (1,338) — — (1,338) (918)

interests