

CBL & ASSOCIATES LIMITED PARTNERSHIP
Form 10-Q
August 10, 2015
Table of Contents

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 JUNE 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.)
DELAWARE (CBL & ASSOCIATES LIMITED PARTNERSHIP)
(State or other jurisdiction of incorporation or organization)

62-1545718

62-1542285

(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.

Edgar Filing: CBL & ASSOCIATES LIMITED PARTNERSHIP - Form 10-Q

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 August 3, 2015, there were 170,494,382 shares of CBL & Associates Properties, Inc.'s common stock, par value \$0.01 per share, outstanding.

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 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 June 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.

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.

Table of Contents

CBL & Associates Properties, Inc.	
CBL & Associates Limited Partnership	
Table of Contents	
PART I FINANCIAL INFORMATION	<u>1</u>
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	<u>1</u>
CBL & Associates Properties, Inc.	
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Equity for the Six Months Ended June 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	<u>7</u>
CBL & Associates Limited Partnership	
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>9</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>10</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>12</u>
<u>Condensed Consolidated Statements of Capital for the Six Months Ended June 30, 2015 and 2014</u>	<u>13</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	<u>15</u>
CBL & Associates Properties, Inc. and CBL & Associates Limited Partnership	
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>17</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
Item 4. <u>Controls and Procedures</u>	<u>63</u>
PART II OTHER INFORMATION	<u>64</u>
Item 1. <u>Legal Proceedings</u>	<u>64</u>
Item 1A. <u>Risk Factors</u>	<u>64</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>64</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>64</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>64</u>
Item 5. <u>Other Information</u>	<u>64</u>
Item 6. <u>Exhibits</u>	<u>64</u>

SIGNATURES

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1: Financial Statements

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

ASSETS	June 30, 2015	December 31, 2014
Real estate assets:		
Land	\$893,149	\$847,829
Buildings and improvements	7,363,728	7,221,387
	8,256,877	8,069,216
Accumulated depreciation	(2,335,522)	(2,240,007)
	5,921,355	5,829,209
Held for sale	2,718	—
Developments in progress	128,381	117,966
Net investment in real estate assets	6,052,454	5,947,175
Cash and cash equivalents	30,601	37,938
Receivables:		
Tenant, net of allowance for doubtful accounts of \$1,837 and \$2,368 in 2015 and 2014, respectively	83,296	81,338
Other, net of allowance for doubtful accounts of \$1,245 and \$1,285 in 2015 and 2014, respectively	21,641	22,577
Mortgage and other notes receivable	19,546	19,811
Investments in unconsolidated affiliates	280,460	281,449
Intangible lease assets and other assets	214,205	226,011
	\$6,702,203	\$6,616,299
 LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgage and other indebtedness	\$4,834,205	\$4,700,460
Accounts payable and accrued liabilities	327,240	328,352
Total liabilities	5,161,445	5,028,812
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	42,944	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, 170,492,533 and 170,260,273 issued and outstanding in 2015 and 2014, respectively	1,705	1,703
Additional paid-in capital	1,957,228	1,958,198
Accumulated other comprehensive income	1,109	13,411
Dividends in excess of cumulative earnings	(591,534)	(566,785)
Total shareholders' equity	1,368,533	1,406,552

Edgar Filing: CBL & ASSOCIATES LIMITED PARTNERSHIP - Form 10-Q

Noncontrolling interests	129,281	143,376
Total equity	1,497,814	1,549,928
	\$6,702,203	\$6,616,299

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

1

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
REVENUES:				
Minimum rents	\$166,428	\$167,631	\$335,509	\$336,908
Percentage rents	2,412	1,824	6,549	5,430
Other rents	4,421	4,613	9,592	9,895
Tenant reimbursements	70,224	70,774	142,357	142,992
Management, development and leasing fees	2,663	2,813	5,441	5,948
Other	7,695	9,278	15,304	17,003
Total revenues	253,843	256,933	514,752	518,176
OPERATING EXPENSES:				
Property operating	32,866	35,527	71,770	75,538
Depreciation and amortization	71,239	70,609	147,505	139,692
Real estate taxes	22,549	22,089	45,334	43,436
Maintenance and repairs	12,407	12,623	26,623	28,788
General and administrative	16,215	11,336	33,445	26,109
Loss on impairment	2,781	106	2,781	17,256
Other	5,928	7,390	12,404	13,935
Total operating expenses	163,985	159,680	339,862	344,754
Income from operations	89,858	97,253	174,890	173,422
Interest and other income	389	1,544	5,663	3,072
Interest expense	(58,754)	(59,277)	(117,911)	(119,783)
Gain on extinguishment of debt	256	—	256	42,660
Gain on investment	—	—	16,560	—
Equity in earnings of unconsolidated affiliates	4,881	3,418	8,704	7,102
Income tax provision	(2,472)	(786)	(1,556)	(1,183)
Income from continuing operations before gain on sales of real estate assets	34,158	42,152	86,606	105,290
Gain on sales of real estate assets	14,173	1,925	14,930	3,079
Income from continuing operations	48,331	44,077	101,536	108,369
Operating loss of discontinued operations	—	(59)	—	(558)
Gain on discontinued operations	—	107	—	90
Net income	48,331	44,125	101,536	107,901
Net income attributable to noncontrolling interests in:				
Operating Partnership	(4,946)	(4,620)	(11,118)	(12,271)
Other consolidated subsidiaries	(1,490)	(1,547)	(2,359)	(2,378)
Net income attributable to the Company	41,895	37,958	88,059	93,252
Preferred dividends	(11,223)	(11,223)	(22,446)	(22,446)
Net income attributable to common shareholders	\$30,672	\$26,735	\$65,613	\$70,806

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$0.18	\$0.16	\$0.38	\$0.42
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to common shareholders	\$0.18	\$0.16	\$0.38	\$0.42
Weighted-average common shares outstanding	170,494	170,267	170,457	170,232
Diluted per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$0.18	\$0.16	\$0.38	\$0.42
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to common shareholders	\$0.18	\$0.16	\$0.38	\$0.42
Weighted-average common and potential dilutive common shares outstanding	170,494	170,267	170,457	170,232
Amounts attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	\$30,672	\$26,694	\$65,613	\$71,205
Discontinued operations	—	41	—	(399)
Net income attributable to common shareholders	\$30,672	\$26,735	\$65,613	\$70,806
Dividends declared per common share	\$0.265	\$0.245	\$0.530	\$0.490

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$48,331	\$44,125	\$101,536	\$107,901
Other comprehensive income (loss):				
Unrealized holding gain on available-for-sale securities	—	1,195	242	2,196
Reclassification to net income of realized gain on available-for-sale securities	—	—	(16,560)) —
Unrealized gain on hedging instruments	1,216	921	2,099	1,873
Reclassification of hedging effect on earnings	(646)	) (551)	) (1,169)	) (1,099)
Total other comprehensive income (loss)	570	1,565	(15,388)	) 2,970
Comprehensive income	48,901	45,690	86,148	110,871
Comprehensive income attributable to noncontrolling interests in:				
Operating Partnership	(5,014)	) (4,280)	) (8,032)	) (11,907)
Other consolidated subsidiaries	(1,490)	) (1,547)	) (2,359)	) (2,378)
Comprehensive income attributable to the Company	\$42,397	\$39,863	\$75,757	\$96,586

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

Table of Contents

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	2,355	—	—	—	—	93,252	93,252	12,294	105,546	
Other comprehensive income (loss)	24	—	—	—	3,334	—	3,334	(388)	2,946	
Dividends declared - common stock	—	—	—	—	—	(83,430)	(83,430)	—	(83,430)	
Dividends declared - preferred stock	—	—	—	—	—	(22,446)	(22,446)	—	(22,446)	
Issuances of 241,188 shares of common stock and restricted common stock	—	—	3	587	—	—	590	—	590	
Cancellation of 28,563 shares of restricted common stock	—	—	—	(360)	—	—	(360)	—	(360)	
Amortization of deferred compensation	—	—	—	2,115	—	—	2,115	—	2,115	
Redemption of Operating Partnership common units	—	—	—	—	—	—	—	(2,914)	(2,914)	
Distributions to noncontrolling interests	(5,744)	—	—	—	—	—	—	(17,850)	(17,850)	
Adjustment for noncontrolling interests	1,482	—	—	(4,347)	—	—	(4,347)	2,865	(1,482)	
Adjustment to record redeemable	3,784	—	—	(3,536)	—	—	(3,536)	(248)	(3,784)	

noncontrolling
interests at
redemption value

Balance, June 30, 2014	\$ 36,540	\$ 25	\$ 1,703	\$ 1,962,103	\$ 9,659	\$(583,405)	\$ 1,390,085	\$ 148,780	\$ 1,538,865
---------------------------	-----------	-------	----------	--------------	----------	-------------	--------------	------------	--------------

Table of Contents

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	2,261	—	—	—	—	88,059	88,059	11,216	99,275
Other comprehensive loss	(375)	—	—	—	(12,302)	—	(12,302)	(2,711)	(15,013)
Performance stock units	—	—	—	312	—	—	312	—	312
Dividends declared - common stock	—	—	—	—	—	(90,362)	(90,362)	—	(90,362)
Dividends declared - preferred stock	—	—	—	—	—	(22,446)	(22,446)	—	(22,446)
Issuances of 272,498 shares of common stock and restricted common stock	—	—	3	589	—	—	592	—	592
Conversion of Operating Partnership common units to shares of common stock	—	—	—	—	—	—	—	(286)	(286)
Cancellation of 40,238 shares of restricted common stock	—	—	(1)	(730)	—	—	(731)	—	(731)
Amortization of deferred compensation	—	—	—	2,613	—	—	2,613	—	2,613
Contributions from	—	—	—	—	—	—	—	15	15

Edgar Filing: CBL & ASSOCIATES LIMITED PARTNERSHIP - Form 10-Q

noncontrolling interests									
Distributions to noncontrolling interests	(2,754)	—	—	—	—	—	—	(19,830)	(19,830)
Adjustment for noncontrolling interests	311	—	—	1,317	—	—	1,317	(1,628)	(311)
Adjustment to record redeemable noncontrolling interests at redemption value	5,942	—	—	(5,071)					