

CBL & ASSOCIATES PROPERTIES INC

Form 10-Q

November 08, 2016

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UNITED STATES OF AMERICA  
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 SEPTEMBER 30, 2016

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. 1-12494 (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  No

CBL & Associates Limited Partnership 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).

CBL & Associates Properties, Inc. Yes  No

CBL & Associates Limited Partnership 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.

CBL & Associates Properties, Inc.

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

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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 November 3, 2016, there were 170,793,828 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, 2016 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, 2016, 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 84.8% limited partner interest for a combined interest held by the Company of 85.8%.

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 and other 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;
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information concerning unregistered sales of equity securities and use of proceeds in Item 2 of Part II 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 <sup>(1)</sup>	September 30, 2016	December 31, 2015
Real estate assets:		
Land	\$ 839,114	\$ 876,668
Buildings and improvements	6,906,736	7,287,862
	7,745,850	8,164,530
Accumulated depreciation	(2,370,768 )	(2,382,568 )
	5,375,082	5,781,962
Held for sale	32,250	—
Developments in progress	141,099	75,991
Net investment in real estate assets	5,548,431	5,857,953
Cash and cash equivalents	24,468	36,892
Receivables:		
Tenant, net of allowance for doubtful accounts of \$1,993 and \$1,923 in 2016 and 2015, respectively	95,518	87,286
Other, net of allowance for doubtful accounts of \$1,332 and \$1,276 in 2016 and 2015, respectively	14,109	17,958
Mortgage and other notes receivable	13,581	18,238
Investments in unconsolidated affiliates	287,791	276,383
Intangible lease assets and other assets	190,423	185,281
	\$ 6,174,321	\$ 6,479,991
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
Mortgage and other indebtedness, net	\$ 4,531,269	\$ 4,710,628
Accounts payable and accrued liabilities	303,642	344,434
Total liabilities <sup>(1)</sup>	4,834,911	5,055,062
Commitments and contingencies (Note 6 and Note 12)		
Redeemable noncontrolling interests	22,742	25,330
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, 170,790,979 and 170,490,948 issued and outstanding in 2016 and 2015, respectively	1,708	1,705
Additional paid-in capital	1,959,007	1,970,333
Accumulated other comprehensive income	—	1,935
Dividends in excess of cumulative earnings	(754,425 )	(689,028 )
Total shareholders' equity	1,206,315	1,284,970
Noncontrolling interests	110,353	114,629

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Total equity	1,316,668	1,399,599
	\$ 6,174,321	\$ 6,479,991

As of September 30, 2016, includes \$618,034 of assets related to consolidated variable interest entities that can be used only to settle obligations of the consolidated variable interest entities and \$484,231 of liabilities of (1) consolidated variable interest entities for which creditors do not have recourse to the general credit of the Company. See Note 5.

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Minimum rents	\$164,444	\$170,422	\$502,289	\$505,931
Percentage rents	3,225	3,869	10,590	10,418
Other rents	3,866	4,156	13,747	13,748
Tenant reimbursements	69,489	72,461	212,951	214,818
Management, development and leasing fees	4,177	2,754	10,825	8,195
Other	6,520	8,974	19,362	24,278
Total revenues	251,721	262,636	769,764	777,388
<b>OPERATING EXPENSES:</b>				
Property operating	35,116	35,859	104,804	107,629
Depreciation and amortization	71,794	74,045	220,505	221,550
Real estate taxes	22,492	23,579	68,354	68,913
Maintenance and repairs	13,236	12,480	39,574	39,103
General and administrative	13,222	12,995	46,865	46,440
Loss on impairment	53,558	884	116,736	3,665
Other	5,576	8,787	20,313	21,191
Total operating expenses	214,994	168,629	617,151	508,491
Income from operations	36,727	94,007	152,613	268,897
Interest and other income	451	579	1,062	6,242
Interest expense	(54,292 )	(56,451 )	(162,710 )	(174,362 )
Gain on extinguishment of debt	(6 )	—	—	256
Gain on investment	—	—	—	16,560
Income tax benefit (provision)	2,386	(448 )	2,974	(2,004 )
Equity in earnings of unconsolidated affiliates	10,478	3,508	107,217	12,212
Income (loss) from continuing operations before gain on sales of real estate assets	(4,256 )	41,195	101,156	127,801
Gain on sales of real estate assets	4,926	3,237	14,503	18,167
Net income	670	44,432	115,659	145,968
Net (income) loss attributable to noncontrolling interests in:				
Operating Partnership	1,372	(4,665 )	(12,056 )	(15,783 )
Other consolidated subsidiaries	(983 )	(2,198 )	449	(4,557 )
Net income attributable to the Company	1,059	37,569	104,052	125,628
Preferred dividends	(11,223 )	(11,223 )	(33,669 )	(33,669 )
Net income (loss) attributable to common shareholders	\$(10,164 )	\$26,346	\$70,383	\$91,959
<b>Basic per share data attributable to common shareholders:</b>				
Net income (loss) attributable to common shareholders	\$(0.06 )	\$0.15	\$0.41	\$0.54
Weighted-average common shares outstanding	170,792	170,494	170,751	170,470
<b>Diluted per share data attributable to common shareholders:</b>				

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Net income (loss) attributable to common shareholders	\$ (0.06 )	\$ 0.15	\$ 0.41	\$ 0.54
Weighted-average common and potential dilutive common shares outstanding	170,792	170,494	170,751	170,500
Dividends declared per common share	\$ 0.265	\$ 0.265	\$ 0.795	\$ 0.795

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$670	\$44,432	\$115,659	\$145,968
Other comprehensive income (loss):				
Unrealized holding gain on available-for-sale securities	—	—	—	242
Reclassification to net income of realized gain on available-for-sale securities	—	—	—	(16,560 )
Unrealized gain on hedging instruments	—	975	877	3,074
Reclassification of hedging effect on earnings	—	(518 )	(443 )	(1,687 )
Total other comprehensive income (loss)	—	457	434	(14,931 )
Comprehensive income	670	44,889	116,093	131,037
Comprehensive (income) loss attributable to noncontrolling interests in:				
Operating Partnership	1,372	(4,737 )	(12,119 )	(12,769 )
Other consolidated subsidiaries	(983 )	(2,198 )	449	(4,557 )
Comprehensive income attributable to the Company	\$1,059	\$37,954	\$104,423	\$113,711

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, 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)
Purchase of noncontrolling interest in Operating Partnership	—	—	—	—	—	—	—	(286)	(286)
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
Adjustment for noncontrolling interests	2,258	—	—	(1,338)	—	—	(1,338)	(918)	(2,256)
Adjustment to record redeemable noncontrolling	(9,515)	—	—	8,339	—	—	8,339	1,177	9,516

interests at redemption value									
Contributions from noncontrolling interests	—	—	—	—	—	—	—	607	607
Distributions to noncontrolling interests	(5,486 )	—	—	—	—	—	—	(28,856 )	(28,856 )
Balance, September 30, 2015	\$28,315	\$25	\$1,705	\$1,968,947	\$1,494	\$(610,368)	\$1,361,803	\$128,927	\$1,490,730

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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, 2016	\$ 25,330	\$ 25	\$ 1,705	\$ 1,970,333	\$ 1,935	\$ (689,028)	\$ 1,284,970	\$ 114,629	\$ 1,399,599
Net income (loss)	(2,119 )	—	—	—	—	104,052	104,052	13,726	117,778
Other comprehensive income	3	—	—	—	371	—	371	60	431
Purchase of noncontrolling interests in Operating Partnership	—	—	—	—	—	—	—	(11,754 )	(11,754 )
Dividends declared - common stock	—	—	—	—	—	(135,780 )	(135,780 )	—	(135,780 )
Dividends declared - preferred stock	—	—	—	—	—	(33,669 )	(33,669 )	—	(33,669 )
Issuances of 331,324 shares of common stock and restricted common stock	—	—	3	429	—	—	432	—	432
Cancellation of 31,293 shares of restricted common stock	—	—	—	(226 )	—	—	(226 )	—	(226 )
Performance stock units	—	—	—	775	—	—	775	—	775
Amortization of deferred compensation	—	—	—	2,857	—	—	2,857	—	2,857
Adjustment for noncontrolling interests	1,686	—	—	(11,647 )	(2,306 )	—	(13,953 )	12,267	(1,686 )
	3,617	—	—	(3,514 )	—	—	(3,514 )	(103 )	(3,617 )

Adjustment to record redeemable noncontrolling interests at redemption value									
Contributions from noncontrolling interests	—	—	—	—	—	—	—	11,240	11,240
Distributions to noncontrolling interests	(5,775 )	—	—	—	—	—	—	(29,712 )	(29,712 )
Balance, September 30, 2016	\$ 22,742	\$ 25	\$ 1,708	\$ 1,959,007	\$ —	\$ (754,425)	\$ 1,206,315	\$ 110,353	\$ 1,316,668

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

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

	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$115,659	\$145,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	220,505	221,550
Net amortization of deferred financing costs and debt premiums	2,019	3,745
Net amortization of intangible lease assets and liabilities	(204	) (613 )
Gain on sales of real estate assets	(14,503	) (18,167 )
Gain on investment	—	(16,560 )
Write-off of development projects	44	2,183
Share-based compensation expense	4,011	4,323
Loss on impairment	116,736	3,665
Gain on extinguishment of debt	—	