

WASHINGTON PRIME GROUP INC.

Form 10-Q

April 26, 2018

UNITED STATES

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 March 31, 2018

Washington Prime Group Inc.

Washington Prime Group, L.P.

(Exact name of Registrant as specified in its charter)

Indiana (Both Registrants)

(State of incorporation or organization)

001-36252 (Washington Prime Group Inc.) 180 East Broad Street

333-205859 (Washington Prime Group, L.P.) Columbus, Ohio 43215

(Commission File No.) (Address of principal executive offices)

46-4323686 (Washington Prime Group Inc.) (614) 621-9000

46-4674640 (Washington Prime Group, L.P.) (Registrant's telephone number, including area code)
(I.R.S. Employer Identification No.)

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.

Washington Prime Group Inc. Yes No Washington Prime Group, L.P. 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).

Washington Prime Group Inc. Yes No Washington Prime Group, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Washington Prime Group Inc. (Check One): Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

(Do not check if a smaller reporting company)

Washington Prime Group, L.P. (Check One):

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Large accelerated filer Accelerated
filer

Non-accelerated filer Smaller reporting
company

Emerging growth company

(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).

Washington Prime Group Inc. Yes No Washington Prime Group, L.P. Yes No

As of April 25, 2018, Washington Prime Group Inc. had 185,990,500 shares of common stock outstanding.

Washington Prime Group, L.P. has no publicly traded equity and no common stock outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2018 of Washington Prime Group® Inc. and Washington Prime Group, L.P. Unless stated otherwise or the context requires otherwise, references to "WPG Inc." mean Washington Prime Group Inc., an Indiana corporation, and references to "WPG L.P." mean Washington Prime Group, L.P., an Indiana limited partnership, and its consolidated subsidiaries, in cases where it is important to distinguish between WPG Inc. and WPG L.P. We use the terms "WPG," the "Company," "we," "us," and "our" to refer to WPG Inc., WPG L.P., and entities in which WPG Inc. or WPG L.P. (or any affiliate) has a material interest on a consolidated basis, unless the context indicates otherwise.

WPG Inc. operates as a self-managed and self-administered real estate investment trust ("REIT"). WPG Inc. owns properties and conducts operations through WPG L.P., of which WPG Inc. is the sole general partner and of which it held approximately 84.4% of the partnership interests ("OP units") at March 31, 2018. The remaining OP units are owned by various limited partners. As the sole general partner of WPG L.P., WPG Inc. has the exclusive and complete responsibility for WPG L.P.'s day-to-day management and control. Management operates WPG Inc. and WPG L.P. as one enterprise. The management of WPG Inc. consists of the same persons who direct the management of WPG L.P. As general partner with control of WPG L.P., WPG Inc. consolidates WPG L.P. for financial reporting purposes, and WPG Inc. does not have significant assets other than its investment in WPG L.P. Therefore, the assets and liabilities of WPG Inc. and WPG L.P. are substantially the same on their respective consolidated financial statements and the disclosures of WPG Inc. and WPG L.P. also are substantially similar.

The Company believes, therefore, that the combination into a single report of the quarterly reports on Form 10-Q of WPG Inc. and WPG L.P. provides the following benefits:

- enhances investors' understanding of the operations of WPG Inc. and WPG L.P. by enabling investors to view the business as a whole in the same manner as 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 WPG Inc. and WPG L.P.; and
- creates time and cost efficiencies through the preparation of one set of disclosures instead of two separate sets of disclosures.

The substantive difference between WPG Inc.'s and WPG L.P.'s filings is the fact that WPG Inc. is a REIT with shares traded on a public stock exchange, while WPG L.P. is a limited partnership with no publicly traded equity. Moreover, the interests in WPG L.P. held by third parties are classified differently by the two entities (i.e., noncontrolling interests for WPG Inc. and partners' equity for WPG L.P.). In the consolidated financial statements, these differences are primarily reflected in the equity section of the consolidated balance sheets and in the consolidated statements of equity. Apart from the different equity presentation, the consolidated financial statements of WPG Inc. and WPG L.P. are nearly identical.

This combined Form 10-Q for WPG Inc. and WPG L.P. includes, for each entity, separate interim financial statements (but combined footnotes), separate reports on disclosure controls and procedures and internal control over financial reporting, and separate CEO/CFO certifications. In addition, if there were any material differences between WPG Inc. and WPG L.P. with respect to any other financial and non-financial disclosure items required by Form 10-Q, they would be discussed separately herein.

WASHINGTON PRIME GROUP INC. AND WASHINGTON PRIME GROUP, L.P.
FORM 10-Q

INDEX

PART I: FINANCIAL INFORMATION	PAGE
Item 1. Consolidated Financial Statements (unaudited)	
Financial Statements for Washington Prime Group Inc.:	
Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017	<u>4</u>
Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2018 and 2017	<u>5</u>
Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017	<u>6</u>
Consolidated Statement of Equity for the three months ended March 31, 2018	<u>7</u>
Financial Statements for Washington Prime Group, L.P.:	
Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017	<u>8</u>
Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2018 and 2017	<u>9</u>
Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017	<u>10</u>
Consolidated Statement of Equity for the three months ended March 31, 2018	<u>11</u>
Condensed Notes to Consolidated Financial Statements	<u>12</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>29</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>44</u>
Item 4. Controls and Procedures	<u>44</u>
 PART II:	
OTHER INFORMATION	
Item 1. Legal Proceedings	<u>45</u>
Item 1A. Risk Factors	<u>45</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>45</u>
Item 3. Defaults Upon Senior Securities	<u>45</u>

Item 4. Mine Safety Disclosures	<u>45</u>
Item 5. Other Information	<u>45</u>
Item 6. Exhibits	<u>46</u>
SIGNATURES	<u>47</u>

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements
Washington Prime Group Inc.
Unaudited Consolidated Balance Sheets
(dollars in thousands, except share and par value amounts)

	March 31, 2018	December 31, 2017
ASSETS:		
Investment properties at cost	\$5,820,287	\$5,807,760
Less: accumulated depreciation	2,182,114	2,139,620
	3,638,173	3,668,140
Cash and cash equivalents	45,871	52,019
Tenant receivables and accrued revenue, net	86,650	90,314
Investment in and advances to unconsolidated entities, at equity	441,580	451,839
Deferred costs and other assets	205,245	189,095
Total assets	\$4,417,519	\$4,451,407
LIABILITIES:		
Mortgage notes payable	\$1,065,595	\$1,157,082
Notes payable	980,196	979,372
Unsecured term loans	684,701	606,695
Revolving credit facility	195,155	154,460
Accounts payable, accrued expenses, intangibles, and deferred revenues	232,673	264,998
Distributions payable	2,992	2,992
Cash distributions and losses in unconsolidated entities, at equity	15,421	15,421
Total liabilities	3,176,733	3,181,020
Redeemable noncontrolling interests	3,265	3,265
EQUITY:		
Stockholders' Equity:		
Series H Cumulative Redeemable Preferred Stock, \$0.0001 par value, 4,000,000 shares issued and outstanding as of March 31, 2018 and December 31, 2017	104,251	104,251
Series I Cumulative Redeemable Preferred Stock, \$0.0001 par value, 3,800,000 shares issued and outstanding as of March 31, 2018 and December 31, 2017	98,325	98,325
Common stock, \$0.0001 par value, 350,000,000 shares authorized; 185,990,500 and 185,791,421 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	19	19
Capital in excess of par value	1,241,978	1,240,483
Accumulated deficit	(381,597)	(350,594)
Accumulated other comprehensive income	11,900	6,920
Total stockholders' equity	1,074,876	1,099,404
Noncontrolling interests	162,645	167,718
Total equity	1,237,521	1,267,122
Total liabilities, redeemable noncontrolling interests and equity	\$4,417,519	\$4,451,407

The accompanying notes are an integral part of these statements.

Washington Prime Group Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(dollars in thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2018	2017
REVENUE:		
Minimum rent	\$123,339	\$137,116
Overage rent	2,014	2,832
Tenant reimbursements	48,644	56,790
Other income	6,343	5,656
Total revenues	180,340	202,394
EXPENSES:		
Property operating	36,366	37,244
Depreciation and amortization	61,294	67,511
Real estate taxes	22,041	26,007
Advertising and promotion	1,771	2,152
Provision for credit losses	3,346	1,581
General and administrative	9,654	8,828
Ground rent	197	1,031
Impairment loss	—	8,509
Total operating expenses	134,669	152,863
OPERATING INCOME	45,671	49,531
Interest expense, net	(34,344)	(32,488)
Income and other taxes	(485)	(2,026)
Income (loss) from unconsolidated entities, net	1,162	(444)
INCOME BEFORE GAIN ON DISPOSITION OF INTERESTS IN PROPERTIES, NET	12,004	14,573
Gain on disposition of interests in properties, net	8,181	51
NET INCOME	20,185	14,624
Net income attributable to noncontrolling interests	2,661	1,814
NET INCOME ATTRIBUTABLE TO THE COMPANY	17,524	12,810
Less: Preferred share dividends	(3,508)	(3,508)
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$14,016	\$9,302
EARNINGS PER COMMON SHARE, BASIC & DILUTED	\$0.07	\$0.05
COMPREHENSIVE INCOME:		
Net income	\$20,185	\$14,624
Unrealized income on interest rate derivative instruments	5,217	2,349
Comprehensive income	25,402	16,973
Comprehensive income attributable to noncontrolling interests	3,482	2,191
Comprehensive income attributable to common shareholders	\$21,920	\$14,782

The accompanying notes are an integral part of these statements.

Washington Prime Group Inc.
 Unaudited Consolidated Statements of Cash Flows
 (dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$20,185	\$14,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including fair value rent, fair value debt, deferred financing costs and equity-based compensation	61,404	66,601
Gain on disposition of interests in properties and outparcels, net	(8,181)	(324)
Impairment loss	—	8,509
Provision for credit losses	3,346	1,581
(Income) loss from unconsolidated entities, net	(1,162)	444
Distributions of income from unconsolidated entities	1,585	80
Changes in assets and liabilities:		
Tenant receivables and accrued revenue, net	1,177	2,853
Deferred costs and other assets	(11,612)	(8,853)
Accounts payable, accrued expenses, deferred revenues and other liabilities	(23,082)	(12,937)
Net cash provided by operating activities	43,660	72,578
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net	(29,675)	(25,039)
Net proceeds from disposition of interests in properties and outparcels	13,776	62,887
Investments in unconsolidated entities	(10,048)	(36,368)
Distributions of capital from unconsolidated entities	19,884	52,479
Net cash (used in) provided by investing activities	(6,063)	53,959
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to noncontrolling interest holders in properties	(5)	(23)
Redemption of limited partner units	(11)	—
Net proceeds from issuance of common shares, including common stock plans	—	7
Purchase of redeemable noncontrolling interest	—	(6,830)
Distributions on common and preferred shares/units	(59,167)	(59,016)
Proceeds from issuance of debt, net of transaction costs	476,877	80,814
Repayments of debt	(451,101)	(104,623)
Net cash used in financing activities	(33,407)	(89,671)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	4,190	36,866
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	70,201	88,514
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$74,391	\$125,380

The accompanying notes are an integral part of these statements.

Washington Prime Group Inc.

Unaudited Consolidated Statement of Equity

(dollars in thousands, except per share/unit amounts)

	Preferred Series H	Preferred Series I	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Other Comprehensive Income	Accumulated Total Stockholders' Equity	Non- Controlling Interests	Total Equity	Redeemable Non-Controlling Interests
Balance, December 31, 2017	\$104,251	\$98,325	\$19	\$1,240,483	\$(350,594)	\$6,920	\$1,099,404	\$167,718	\$1,267,122	\$3,265
Cumulative effect of accounting standards	—	—	—	(389)	1,890	584	2,085	389	2,474	—
Redemption of limited partner units	—	—	—	—	—	—	—	(11)	(11)	—
Other	—	—	—	(36)	—	—	(36)	—	(36)	—
Equity-based compensation	—	—	—	1,523	—	—	1,523	219	1,742	—
Adjustments to noncontrolling interests	—	—	—	397	—	—	397	(397)	—	—
Distributions on common shares/units (\$0.25 per common share/unit)	—	—	—	—	(46,909)	—	(46,909)	(8,695)	(55,604)	—
Distributions declared on preferred shares	—	—	—	—	(3,508)	—	(3,508)	—	(3,508)	—
Other comprehensive income	—	—	—	—	—	4,396	4,396	821	5,217	—
Net income, excluding \$60 of distributions to preferred unitholders	—	—	—	—	17,524	—	17,524	2,601	20,125	—
Balance, March 31, 2018	\$104,251	\$98,325	\$19	\$1,241,978	\$(381,597)	\$11,900	\$1,074,876	\$162,645	\$1,237,521	\$3,265

The accompanying notes are an integral part of this statement.

Washington Prime Group, L.P.
 Unaudited Consolidated Balance Sheets
 (dollars in thousands, except unit amounts)

	March 31, 2018	December 31, 2017
ASSETS:		
Investment properties at cost	\$5,820,287	\$ 5,807,760
Less: accumulated depreciation	2,182,114	2,139,620
	3,638,173	3,668,140
Cash and cash equivalents	45,871	52,019
Tenant receivables and accrued revenue, net	86,650	90,314
Investment in and advances to unconsolidated entities, at equity	441,580	451,839
Deferred costs and other assets	205,245	189,095
Total assets	\$4,417,519	\$ 4,451,407
LIABILITIES:		
Mortgage notes payable	\$1,065,595	\$ 1,157,082
Notes payable	980,196	979,372
Unsecured term loans	684,701	606,695
Revolving credit facility	195,155	154,460
Accounts payable, accrued expenses, intangibles, and deferred revenues	232,673	264,998
Distributions payable	2,992	2,992
Cash distributions and losses in unconsolidated entities, at equity	15,421	15,421
Total liabilities	3,176,733	3,181,020
Redeemable noncontrolling interests	3,265	3,265
EQUITY:		
Partners' Equity:		
General partner		
Preferred equity, 7,800,000 units issued and outstanding as of March 31, 2018 and December 31, 2017	202,576	202,576
Common equity, 185,990,500 and 185,791,421 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	872,300	896,828
Total general partners' equity	1,074,876	1,099,404
Limited partners, 34,758,387 and 34,760,026 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	161,592	166,660
Total partners' equity	1,236,468	1,266,064
Noncontrolling interests	1,053	1,058
Total equity	1,237,521	1,267,122
Total liabilities, redeemable noncontrolling interests and equity	\$4,417,519	\$ 4,451,407

The accompanying notes are an integral part of these statements.

Washington Prime Group, L.P.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(dollars in thousands, except per unit amounts)

	For the Three Months Ended March 31,	
	2018	2017
REVENUE:		
Minimum rent	\$123,339	\$137,116
Overage rent	2,014	2,832
Tenant reimbursements	48,644	56,790
Other income	6,343	5,656
Total revenues	180,340	202,394
EXPENSES:		
Property operating	36,366	37,244
Depreciation and amortization	61,294	67,511
Real estate taxes	22,041	26,007
Advertising and promotion	1,771	2,152
Provision for credit losses	3,346	1,581
General and administrative	9,654	8,828
Ground rent	197	1,031
Impairment loss	—	8,509
Total operating expenses	134,669	152,863
OPERATING INCOME	45,671	49,531
Interest expense, net	(34,344)	(32,488)
Income and other taxes	(485)	(2,026)
Income (loss) from unconsolidated entities, net	1,162	(444)
INCOME BEFORE GAIN ON DISPOSITION OF INTERESTS IN PROPERTIES, NET	12,004	14,573
Gain on disposition of interests in properties, net	8,181	51
NET INCOME ATTRIBUTABLE TO UNITHOLDERS	20,185	14,624
Less: Preferred unit distributions	(3,568)	(3,568)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS	\$16,617	\$11,056
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS:		
General partner	\$14,016	\$9,302
Limited partners	2,601	1,754
Net income attributable to common unitholders	\$16,617	\$11,056
EARNINGS PER COMMON UNIT, BASIC & DILUTED	\$0.07	\$0.05
COMPREHENSIVE INCOME:		
Net income	\$20,185	\$14,624
Unrealized income on interest rate derivative instruments	5,217	2,349
Comprehensive income	\$25,402	\$16,973

The accompanying notes are an integral part of these statements.

Washington Prime Group, L.P.
 Unaudited Consolidated Statements of Cash Flows
 (dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$20,185	\$14,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including fair value rent, fair value debt, deferred financing costs and equity-based compensation	61,404	66,601
Gain on disposition of interests in properties and outparcels, net	(8,181)	(324)
Impairment loss	—	8,509
Provision for credit losses	3,346	1,581
(Income) loss from unconsolidated entities, net	(1,162)	444
Distributions of income from unconsolidated entities	1,585	80
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Tenant receivables and accrued revenue, net	1,177	2,853
Deferred costs and other assets	(11,612)	(8,853)
Accounts payable, accrued expenses, deferred revenues and other liabilities	(23,082)	(12,937)
Net cash provided by operating activities	43,660	72,578
CASH FLOWS FROM INVESTING ACTIVITIES:		
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Investments in unconsolidated entities	(10,048)	(36,368)
Distributions of capital from unconsolidated entities	19,884	52,479
Net cash (used in) provided by investing activities	(6,063)	53,959
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to noncontrolling interest holders in properties	(5)	(23)
Redemption of limited partner units	(11)	—
Net proceeds from issuance of common units, including equity-based compensation plans	—	7
Purchase of redeemable noncontrolling interest	—	(6,830)
Distributions to unitholders, net	(59,167)	(59,016)
Proceeds from issuance of debt, net of transaction costs	476,877	80,814
Repayments of debt	(451,101)	(104,623)
Net cash used in financing activities	(33,407)	(89,671)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	4,190	36,866
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	70,201	88,514
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$74,391	\$125,380

The accompanying notes are an integral part of these statements.

Washington Prime Group, L.P.

Unaudited Consolidated Statement of Equity

(dollars in thousands, except per unit amounts)

	General Partner			Limited Partners	Total Partners' Equity	Non-Controlling Interests	Total Equity	Redeemable Non-Controlling Interests
	Preferred	Common	Total					
Balance, December 31, 2017	\$202,576	\$896,828	\$1,099,404	\$166,660	\$1,266,064	\$1,058	\$1,267,122	\$3,265
Cumulative effect of accounting standards	—	2,085	2,085	389	2,474	—	2,474	—
Redemption of limited partner units	—	—	—	(11)	(11)	—	(11)	—
Other	—	(36)	(36)	—	(36)	—	(36)	—
Equity-based compensation	—	1,523	1,523	219	1,742	—	1,742	—
Adjustments to limited partners' interests	—	397	397	(397)	—	—	—	—
Distributions on common units (\$0.25 per common unit)	—	(46,909)	(46,909)	(8,690)	(55,599)	(5)	(55,604)	—
Distributions declared on preferred units	(3,508)	—	(3,508)	—	(3,508)	—	(3,508)	(60)