

WASHINGTON PRIME GROUP INC.

Form 10-Q

July 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 June 30, 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 July 25, 2018, Washington Prime Group Inc. had 186,050,048 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 June 30, 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 June 30, 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

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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)

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| ASSETS: | | |
| Investment properties at cost | \$5,913,473 | \$5,807,760 |
| Less: accumulated depreciation | 2,226,646 | 2,139,620 |
| | 3,686,827 | 3,668,140 |
| Cash and cash equivalents | 53,987 | 52,019 |
| Tenant receivables and accrued revenue, net | 79,363 | 90,314 |
| Investment in and advances to unconsolidated entities, at equity | 443,963 | 451,839 |
| Deferred costs and other assets | 207,928 | 189,095 |
| Total assets | \$4,472,068 | \$4,451,407 |
| LIABILITIES: | | |
| Mortgage notes payable | \$1,060,687 | \$1,157,082 |
| Notes payable | 981,026 | 979,372 |
| Unsecured term loans | 684,939 | 606,695 |
| Revolving credit facility | 275,440 | 154,460 |
| Accounts payable, accrued expenses, intangibles, and deferred revenues | 251,422 | 264,998 |
| Distributions payable | 2,992 | 2,992 |
| Cash distributions and losses in unconsolidated entities, at equity | 15,421 | 15,421 |
| Total liabilities | 3,271,927 | 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 June 30, 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 June 30, 2018 and December 31, 2017 | 98,325 | 98,325 |
| Common stock, \$0.0001 par value, 350,000,000 shares authorized; 186,050,048 and 185,791,421 issued and outstanding as of June 30, 2018 and December 31, 2017, respectively | 19 | 19 |
| Capital in excess of par value | 1,244,211 | 1,240,483 |
| Accumulated deficit | (418,472) | (350,594) |
| Accumulated other comprehensive income | 12,403 | 6,920 |
| Total stockholders' equity | 1,040,737 | 1,099,404 |
| Noncontrolling interests | 156,139 | 167,718 |
| Total equity | 1,196,876 | 1,267,122 |
| Total liabilities, redeemable noncontrolling interests and equity | \$4,472,068 | \$4,451,407 |

The accompanying notes are an integral part of these statements.

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Washington Prime Group Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(dollars in thousands, except per share amounts)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|-----------|--------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| REVENUE: | | | | |
| Minimum rent | \$121,787 | \$129,433 | \$245,126 | \$266,549 |
| Overage rent | 1,415 | 1,299 | 3,429 | 4,131 |
| Tenant reimbursements | 47,594 | 52,121 | 96,238 | 108,911 |
| Other income | 7,932 | 6,318 | 14,275 | 11,974 |
| Total revenues | 178,728 | 189,171 | 359,068 | 391,565 |
| EXPENSES: | | | | |
| Property operating | 35,945 | 35,164 | 72,311 | 72,408 |
| Depreciation and amortization | 63,796 | 66,620 | 125,090 | 134,131 |
| Real estate taxes | 21,094 | 23,253 | 43,135 | 49,260 |
| Advertising and promotion | 2,240 | 2,275 | 4,011 | 4,427 |
| Provision for credit losses | 611 | 1,903 | 3,957 | 3,484 |
| General and administrative | 11,191 | 9,091 | 20,845 | 17,919 |
| Ground rent | 198 | 996 | 395 | 2,027 |
| Impairment loss | — | — | — | 8,509 |
| Total operating expenses | 135,075 | 139,302 | 269,744 | 292,165 |
| OPERATING INCOME | 43,653 | 49,869 | 89,324 | 99,400 |
| Interest expense, net | (34,701) | (31,281) | (69,045) | (63,769) |
| Gain on extinguishment of debt, net | — | 21,221 | — | 21,221 |
| Income and other taxes | (601) | (522) | (1,086) | (2,548) |
| (Loss) income from unconsolidated entities, net | (895) | (172) | 267 | (616) |
| INCOME BEFORE GAIN ON DISPOSITION OF INTERESTS IN PROPERTIES, NET | 7,456 | 39,115 | 19,460 | 53,688 |
| Gain on disposition of interests in properties, net | 8,063 | 125,385 | 16,244 | 125,436 |
| NET INCOME | 15,519 | 164,500 | 35,704 | 179,124 |
| Net income attributable to noncontrolling interests | 1,925 | 25,525 | 4,586 | 27,339 |
| NET INCOME ATTRIBUTABLE TO THE COMPANY | 13,594 | 138,975 | 31,118 | 151,785 |
| Less: Preferred share dividends | (3,508) | (3,508) | (7,016) | (7,016) |
| NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$10,086 | \$135,467 | \$24,102 | \$144,769 |
| | | | | |
| EARNINGS PER COMMON SHARE, BASIC | \$0.05 | \$0.73 | \$0.13 | \$0.78 |
| | | | | |
| EARNINGS PER COMMON SHARE, DILUTED | \$0.05 | \$0.72 | \$0.13 | \$0.77 |
| | | | | |
| COMPREHENSIVE INCOME: | | | | |
| Net income | \$15,519 | \$164,500 | \$35,704 | \$179,124 |
| Unrealized income (loss) on interest rate derivative instruments, net | 602 | (2,050) | 5,819 | 299 |
| Comprehensive income | 16,121 | 162,450 | 41,523 | 179,423 |
| Comprehensive income attributable to noncontrolling interests | 2,024 | 25,206 | 5,506 | 27,397 |
| Comprehensive income attributable to common shareholders | \$14,097 | \$137,244 | \$36,017 | \$152,026 |

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 Six Months Ended June 30, | |
|---|--------------------------------------|------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$35,704 | \$179,124 |
| 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 | 126,545 | 132,289 |
| Gain on extinguishment of debt, net | — | (21,221) |
| Gain on disposition of interests in properties and outparcels, net | (16,244) | (125,710) |
| Impairment loss | — | 8,509 |
| Provision for credit losses | 3,957 | 3,484 |
| (Income) loss from unconsolidated entities, net | (267) | 616 |
| Distributions of income from unconsolidated entities | 2,817 | 161 |
| Changes in assets and liabilities: | | |
| Tenant receivables and accrued revenue, net | 9,017 | 3,288 |
| Deferred costs and other assets | (15,858) | (11,479) |
| Accounts payable, accrued expenses, deferred revenues and other liabilities | (9,900) | (9,814) |
| Net cash provided by operating activities | 135,771 | 159,247 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisitions, net of cash acquired | (80,108) | — |
| Capital expenditures, net | (59,772) | (70,967) |
| Net proceeds from disposition of interests in properties and outparcels | 23,402 | 203,624 |
| Investments in unconsolidated entities | (12,054) | (36,747) |
| Distributions of capital from unconsolidated entities | 22,923 | 56,962 |
| Net cash (used in) provided by investing activities | (105,609) | 152,872 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Distributions to noncontrolling interest holders in properties | (5) | (23) |
| Redemption of limited partner units | (25) | (12) |
| Net proceeds from issuance of common shares, including common stock plans | — | 13 |
| Purchase of redeemable noncontrolling interest | — | (6,830) |
| Distributions on common and preferred shares/units | (118,385) | (118,073) |
| Proceeds from issuance of debt, net of transaction costs | 593,714 | 368,199 |
| Repayments of debt | (492,548) | (540,003) |
| Net cash used in financing activities | (17,249) | (296,729) |
| NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 12,913 | 15,390 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period | 70,201 | 88,514 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period | \$83,114 | \$103,904 |

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 | Accumulated Other Comprehensive Income | 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 | — | — | — | — | — | — | — | (25) | (25) | — |
| Other | — | — | — | (89) | — | — | (89) | — | (89) | — |
| Equity-based compensation | — | — | — | 3,771 | — | — | 3,771 | 490 | 4,261 | — |
| Adjustments to noncontrolling interests | — | — | — | 435 | — | — | 435 | (435) | — | — |
| Distributions on common shares/units (\$0.50 per common share/unit) | — | — | — | — | (93,870) | — | (93,870) | (17,384) | (111,254) | — |
| Distributions declared on preferred shares | — | — | — | — | (7,016) | — | (7,016) | — | (7,016) | — |
| Other comprehensive income | — | — | — | — | — | 4,899 | 4,899 | 920 | 5,819 | — |
| Net income, excluding \$120 of distributions to preferred unitholders | — | — | — | — | 31,118 | — | 31,118 | 4,466 | 35,584 | — |
| Balance, June 30, 2018 | \$ 104,251 | \$ 98,325 | \$ 19 | \$ 1,244,211 | \$(418,472) | \$ 12,403 | \$ 1,040,737 | \$ 156,139 | \$ 1,196,876 | \$ 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)

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| ASSETS: | | |
| Investment properties at cost | \$5,913,473 | \$ 5,807,760 |
| Less: accumulated depreciation | 2,226,646 | 2,139,620 |
| | 3,686,827 | 3,668,140 |
| Cash and cash equivalents | 53,987 | 52,019 |
| Tenant receivables and accrued revenue, net | 79,363 | 90,314 |
| Investment in and advances to unconsolidated entities, at equity | 443,963 | 451,839 |
| Deferred costs and other assets | 207,928 | 189,095 |
| Total assets | \$4,472,068 | \$ 4,451,407 |
| LIABILITIES: | | |