CBL & ASSOCIATES PROPERTIES INC
Form 10-Q
August 08, 2013
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UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

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S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
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.
(Exact Name of registrant as specified in its charter)

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DELAWARE	62-1545718
(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.

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).

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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller Reporting Company o

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

Yes o No x

As of August 2, 2013, there were 169,905,872 shares of common stock, par value $0.01 per share, outstanding.

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CBL & Associates Properties, Inc.

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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	June 30, 2013	December 31, 2012
Real estate assets:		
Land	$909,585	$905,339
Buildings and improvements	7,237,585	7,228,293
	8,147,170	8,133,632
Accumulated depreciation	(2,061,148)	(1,972,031)
	6,086,022	6,161,601
Held for sale	—	29,425
Developments in progress	210,086	137,956
Net investment in real estate assets	6,296,108	6,328,982
Cash and cash equivalents	64,430	78,248
Receivables:		
Tenant, net of allowance for doubtful accounts of $2,154 and $1,977 in 2013 and 2012, respectively	78,803	78,963
Other, net of allowance for doubtful accounts of $1,283 and $1,270 in 2013 and 2012, respectively	29,985	8,467
Mortgage and other notes receivable	25,020	25,967
Investments in unconsolidated affiliates	282,389	259,810
Intangible lease assets and other assets	257,908	309,299
	$7,034,643	$7,089,736

LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgage and other indebtedness	$4,622,395	$4,745,683
Accounts payable and accrued liabilities	327,399	358,874
Total liabilities	4,949,794	5,104,557
Commitments and contingencies (Notes 5 and 12)		
Redeemable noncontrolling interests:		
Redeemable noncontrolling partnership interests	40,471	40,248
Redeemable noncontrolling preferred joint venture interest	423,777	423,834
Total redeemable noncontrolling interests	464,248	464,082
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, 169,906,529 and 161,309,652 issued and	1,699	1,613

outstanding in 2013 and 2012, respectively		
Additional paid-in capital	1,955,990	1,773,630
Accumulated other comprehensive income	7,855	6,986
Dividends in excess of cumulative earnings	(510,761)	(453,561)
Total shareholders' equity	1,454,808	1,328,693
Noncontrolling interests	165,793	192,404
Total equity	1,620,601	1,521,097
	$7,034,643	$7,089,736

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 June 30, 2013	2012	Six Months Ended June 30, 2013	2012
REVENUES:				
Minimum rents	$170,185	$164,613	$340,663	$322,123
Percentage rents	2,376	1,756	7,291	5,208
Other rents	4,698	4,664	9,995	9,950
Tenant reimbursements	72,576	70,994	146,935	140,686
Management, development and leasing fees	2,849	1,967	5,924	4,436
Other	9,753	7,850	17,606	15,910
Total revenues	262,437	251,844	528,414	498,313
OPERATING EXPENSES:				
Property operating	35,098	35,491	76,176	72,356
Depreciation and amortization	70,515	67,156	142,070	129,414
Real estate taxes	22,013	23,211	45,055	45,540
Maintenance and repairs	13,772	13,034	28,463	25,791
General and administrative	12,875	11,993	26,299	25,793
Loss on impairment	21,038	—	21,038	—
Other	8,190	6,559	14,846	13,317
Total operating expenses	183,501	157,444	353,947	312,211
Income from operations	78,936	94,400	174,467	186,102
Interest and other income	661	1,295	1,388	2,370
Interest expense	(57,205)	(61,400)	(117,033)	(121,231)
Loss on extinguishment of debt	(9,108)	—	(9,108)	—
Gain on sale of real estate assets	457	—	1,000	94
Gain on investments	2,400	—	2,400	—
Equity in earnings of unconsolidated affiliates	2,729	2,073	5,348	3,339
Income tax provision	(757)	(267)	(583)	(39)
Income from continuing operations	18,113	36,101	57,879	70,635
Operating income (loss) from discontinued operations	35	3,308	(627)	4,414
Gain (loss) on discontinued operations	91	(16)	872	895
Net income	18,239	39,393	58,124	75,944
Net income attributable to noncontrolling interests in:				
Operating partnership	(36)	(5,197)	(3,527)	(9,559)
Other consolidated subsidiaries	(6,479)	(4,805)	(12,560)	(10,945)
Net income attributable to the Company	11,724	29,391	42,037	55,440
Preferred dividends	(11,223)	(10,594)	(22,446)	(21,188)
Net income attributable to common shareholders	$501	$18,797	$19,591	$34,252

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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,	
	2013	2012	2013	2012
Basic per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	$0.00	$0.11	$0.12	$0.20
Discontinued operations	0.00	0.01	0.00	0.03
Net income attributable to common shareholders	$0.00	$0.12	$0.12	$0.23
Weighted-average common shares outstanding	166,607	150,913	164,088	149,704
Diluted earnings per share data attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	$0.00	$0.11	$0.12	$0.20
Discontinued operations	0.00	0.01	0.00	0.03
Net income attributable to common shareholders	$0.00	$0.12	$0.12	$0.23
Weighted-average common and potential dilutive common shares outstanding	166,607	150,954	164,088	149,746
Amounts attributable to common shareholders:				
Income from continuing operations, net of preferred dividends	$394	$16,184	$19,383	$30,071
Discontinued operations	107	2,613	208	4,181
Net income attributable to common shareholders	$501	$18,797	$19,591	$34,252
Dividends declared per common share	$0.23	$0.22	$0.46	$0.44

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$18,239	$39,393	$58,124	$75,944
Other comprehensive income:				
Unrealized holding gain (loss) on available-for-sale securities	(1,015)	61	(252)	1,579
Reclassification to net income of realized gain on available-for-sale securities	—	(160)	—	(160)
Unrealized gain (loss) on hedging instruments	443	(1,332)	163	(1,610)
Reclassification to net income of hedging loss included in net income	562	567	1,119	1,129
Total other comprehensive income (loss)	(10)	(864)	1,030	938
Comprehensive income	18,229	38,529	59,154	76,882
Comprehensive income attributable to noncontrolling interests in:				
Operating partnership	(21)	(5,019)	(3,688)	(9,776)
Other consolidated subsidiaries	(6,479)	(4,805)	(12,560)	(10,945)
Comprehensive income attributable to the Company	$11,729	$28,705	$42,906	$56,161

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)
(Unaudited)

		Equity							
		Shareholders' Equity							
	Redeemable Noncontrolling Partnership Interests	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2012	$ 32,271	$ 23	$ 1,484	$ 1,657,927	$ 3,425	$ (399,581)	$ 1,263,278	$ 207,113	$ 1,470,391
Net income	1,620	—	—	—	—	55,440	55,440	8,595	64,035
Other comprehensive income	8	—	—	—	721	—	721	209	930
Conversion of operating partnership common units to shares of common stock	—	—	98	45,599	—	—	45,697	(45,697)	—
Redemption of Operating Partnership common units	—	—	—	—	—	—	—	(9,836)	(9,836)
Dividends declared - common stock	—	—	—	—	—	(67,579)	(67,579)	—	(67,579)
Dividends declared - preferred stock	—	—	—	—	—	(21,188)	(21,188)	—	(21,188)
Issuance of common stock and restricted common stock	—	—	2	327	—	—	329	—	329
Cancellation of restricted common stock	—	—	—	(255)	—	—	(255)	—	(255)
Exercise of stock options	—	—	2	4,432	—	—	4,434	—	4,434
Accrual under deferred compensation arrangements	—	—	—	29	—	—	29	—	29
Amortization of deferred compensation	—	—	—	1,496	—	—	1,496	—	1,496

Contributions from noncontrolling interests	—	—	—	—	—	—	—	4,042	4,042
Distributions to noncontrolling interests	(4,536)	—	—	—	—	—	—	(17,540)	(17,540)
Adjustment for noncontrolling interests	1,485	—	—	(4,242)	—	—	(4,242)	2,757	(1,485)
Adjustment to record redeemable noncontrolling interests at redemption value	7,370	—	—	(7,370)	—	—	(7,370)	—	(7,370)
Acquire controlling interest in shopping center property	—	—	—	—	—	—	—	14,505	14,505
Balance, June 30, 2012	$ 38,218	$23	$1,586	$1,697,943	$ 4,146	$(432,908)	$1,270,790	$ 164,148	$1,434,938

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)
(Unaudited)
(Continued)

		Equity							
		Shareholders' Equity							
	Redeemable Noncontrolling Partnership Interests	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2013	$ 40,248	$ 25	$ 1,613	$ 1,773,630	$ 6,986	$ (453,561)	$ 1,328,693	$ 192,404	$ 1,521,097
Net income	1,996	—	—	—	—	42,037	42,037	3,863	45,900
Other comprehensive income	10	—	—	—	869	—	869	151	1,020
Issuance of common stock	—	—	84	209,422	—	—	209,506	—	209,506
Dividends declared - common stock	—	—	—	—	—	(76,791)	(76,791)	—	(76,791)
Dividends declared - preferred stock	—	—	—	—	—	(22,446)	(22,446)	—	(22,446)
Issuance of restricted common stock	—	—	2	(2)	—	—	—	—	—
Cancellation of restricted common stock	—	—	—	(705)	—	—	(705)	—	(705)
Amortization of deferred compensation	—	—	—	1,887	—	—	1,887	—	1,887
Distributions to noncontrolling interests	(3,838)	—	—	—	—	—	—	(15,368)	(15,368)
Adjustment for noncontrolling interests	2,909	—	—	(29,057)	—	—	(29,057)	26,148	(2,909)
Adjustment to record redeemable noncontrolling interests at redemption value	(854)	—	—	815	—	—	815	39	854
Acquire controlling	—	—	—	—	—	—	—	(41,444)	(41,444)

interest in shopping center property									
Balance, June 30, 2013	$ 40,471	$ 25	$ 1,699	$ 1,955,990	$ 7,855	$ (510,761)	$ 1,454,808	$ 165,793	$ 1,620,601

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)

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$58,124	$75,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	142,177	131,399
Net amortization of deferred finance costs and debt premiums	2,503	3,787
Net amortization of intangible lease assets and liabilities	(180)	(147)
Gain on sale of real estate assets	(1,000)	(3,130)
Gain on investment	(2,400)	—
Gain on sale of discontinued operations	(872)	(895)
Write-off of development projects	1	(123)
Share-based compensation expense	1,887	1,739
Net realized gain on sale of available-for-sale securities	—	(160)
Loss on impairment	21,038	—
Loss on impairment from discontinued operations	—	293
Loss on extinguishment of debt	9,108	—
Equity in earnings of unconsolidated affiliates	(5,348)	(3,339)
Distributions of earnings from unconsolidated affiliates	7,911	7,314
Provision for doubtful accounts	927	1,331
Change in deferred tax accounts	1,824	2,316
Changes in:		
Tenant and other receivables	(5,796)	5,745
Other assets	5,173	2,923
Accounts payable and accrued liabilities	(45,408)	(5,207)
Net cash provided by operating activities	189,669	219,790
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to real estate assets	(147,327)	(88,890)
Acquisition of real estate assets	(26,444)	(61,419)
Additions to restricted cash	(528)	(1,270)
Proceeds from sales of real estate assets	45,039	38,161
Additions to mortgage and other notes receivable	(2,700)	(2,965)
Payments received on mortgage and other notes receivable	3,699	2,160
Proceeds from sales of investments and available-for-sale securities	15,877	—
Additional investments in and advances to unconsolidated affiliates	(29,079)	(3,969)
Distributions in excess of equity in earnings of unconsolidated affiliates	4,239	7,316
Changes in other assets	(11,677)	2,066
Net cash used in investing activities	(148,901)	(108,810)

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

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage and other indebtedness	$752,835	$1,136,081
Principal payments on mortgage and other indebtedness	(882,239)	(1,108,292)
Additions to deferred financing costs	(900)	(2,688)
Prepayment fees on extinguishment of debt	(8,708)	—
Proceeds from issuances of common stock	209,506	87
Proceeds from exercises of stock options	—	4,434
Purchase of noncontrolling interest in the Operating Partnership	—	(9,836)
Contributions from noncontrolling interests	—	4,042
Distributions to noncontrolling interests	(29,437)	(34,323)
Dividends paid to holders of preferred stock	(22,446)	(21,188)
Dividends paid to common shareholders	(73,197)	(63,852)
Net cash used in financing activities	(54,586)	(95,535)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,818)	15,445
CASH AND CASH EQUIVALENTS, beginning of period	78,248	56,092
CASH AND CASH EQUIVALENTS, end of period	$64,430	$71,537
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$114,360	$115,507

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

CBL & Associates Properties, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands, except share data)

Note 1 – Organization and Basis of Presentation

CBL & Associates Properties, Inc. ("CBL"), a Delaware corporation, is a self-managed, self-administered, fully-integrated real estate investment trust ("REIT") that is engaged in the ownership, development, acquisition, leasing, management and operation of regional shopping malls, open-air centers, outlet centers, associated centers, community centers and office properties. Its properties are located in 27 states, but are primarily in the southeastern and midwestern United States.

CBL conducts substantially all of its business through CBL & Associates Limited Partnership (the "Operating Partnership"). As of June 30, 2013, the Operating Partnership owned controlling interests in 77 regional malls/open-air and outlet centers (including one mixed-use center), 28 associated centers (each located adjacent to a regional mall), seven community centers and eight office buildings, including CBL's corporate office building. The Operating Partnership consolidates the financial statements of all entities in which it has a controlling financial interest or where it is the primary beneficiary of a variable interest entity ("VIE"). At June 30, 2013, the Operating Partnership owned noncontrolling interests in nine regional malls/open-air centers, four associated centers, four community centers and seven office buildings. Because one or more of the other partners have substantive participating rights, the Operating Partnership does not control these partnerships and joint ventures and, accordingly, accounts for these investments using the equity method. The Operating Partnership had controlling interests in two outlet center developments, four mall expansions, three mall redevelopments and one associated center redevelopment at June 30, 2013. The Operating Partnership had a noncontrolling interest in one community center development at June 30, 2013. The Operating Partnership also holds options to acquire certain development properties owned by third parties.

CBL is the 100% owner of two qualified REIT subsidiaries, CBL Holdings I, Inc. and CBL Holdings II, Inc. At June 30, 2013, 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 84.2% limited partner interest for a combined interest held by CBL of 85.2%.

The noncontrolling interest in the Operating Partnership is held by CBL & Associates, Inc., its shareholders and affiliates and certain senior officers of the Company (collectively "CBL's Predecessor"), all of which contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for a limited partner interest when the Operating Partnership was formed in November 1993, and by various third parties. At June 30, 2013, CBL's Predecessor owned a 9.1% limited partner interest and the third parties owned a 5.7% limited partner interest in the Operating Partnership. CBL's Predecessor also owned 3.2 million shares of CBL's common stock at June 30, 2013, for a total combined effective interest of 10.7% in the Operating Partnership.

The Operating Partnership conducts CBL's property management and development activities through its wholly-owned subsidiary, CBL & Associates Management, Inc. (the "Management Company"), to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

CBL, the Operating Partnership and the Management Company are collectively referred to herein as "the Company."

The accompanying condensed consolidated financial statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. All intercompany transactions have been eliminated. The results for the interim period ended June 30, 2013 are not necessarily indicative of the results to be obtained for the full fiscal year.

Certain historical amounts have been reclassified to conform to the current year's presentation. The financial results of certain properties that had been classified in continuing operations have been reclassified to discontinued operations in the condensed consolidated financial statements for all periods presented herein. Except where noted, the information presented in the Notes to Unaudited Condensed Consolidated Financial Statements excludes discontinued operations. These condensed consolidated financial statements should be read in conjunction with CBL's audited consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2012.

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Note 2 – Recent Accounting Pronouncements

Accounting Guidance Adopted

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). The objective of ASU 2013-02 is to improve reporting of reclassifications out of accumulated other comprehensive income ("AOCI") by presenting information about such reclassifications and their corresponding effect on net income primarily in one place, either on the face of the financial statements or in the notes. ASU 2013-02 requires an entity to disclose information by component for significant amounts reclassified out of AOCI if the amounts reclassified are required to be reclassified under GAAP to net income in their entirety in the same reporting period. For amounts not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. For public companies, this guidance was effective on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2012. ASU 2013-02 did not change the calculation of or amounts reported as net income and comprehensive income but did change the presentation of the components of AOCI reported in the Company's condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes ("ASU 2013-10"). ASU 2013-10 permits the Overnight Index Swap ("OIS") Rate, also referred to as the Fed Funds Effective Swap Rate, to be used as a U.S. benchmark for hedge accounting purposes, in addition to London Interbank Offered Rate ("LIBOR") and interest rates on direct U.S. Treasury obligations. The guidance also removes the restriction on using different benchmarks for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedges entered into on or after July 17, 2013. The Company does not expect the adoption of this guidance to have a material effect on its condensed consolidated financial statements.

Accounting Pronouncements Not Yet Effective

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ("ASU 2013-04"). ASU 2013-04 addresses the diversity in practice related to the recognition, measurement and disclosure of certain obligations which are not addressed within existing GAAP guidance. Such obligations under the scope of ASU 2013-04 include debt arrangements, other contractual obligations, settled litigation and judicial rulings. The guidance requires an entity to measure these joint and several obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors as well as any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 also requires an entity to disclose information about the nature and amount of these obligations. For public companies, ASU 2013-04 is effective on a retrospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company may elect to use hindsight for the comparative periods (if the Company changes its accounting as a result of the adoption of this guidance). Early adoption is permitted. The Company is evaluating the impact that this update may have on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). The objective of this update is to reduce the diversity in practice related to the presentation of certain unrecognized tax benefits. ASU 2013-11 provides that unrecognized tax benefits are to be presented as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the governing tax law. To the extent such an NOL carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or the entity does not intend to use the deferred tax asset for this purpose, the unrecognized tax benefit is to be recorded as a liability in the financial statements and should not be netted with a deferred tax asset. ASU 2013-11 is effective for public companies for fiscal years beginning after December 15, 2013 and interim periods within those years. The guidance should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application are permitted. The Company is evaluating the impact that this update may have on its consolidated financial statements.

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Note 3 – Fair Value Measurements

The Company has categorized its financial assets and financial liabilities that are recorded at fair value into a hierarchy in accordance with Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosure, ("ASC 820") based on whether the inputs to valuation techniques are observable or unobservable. The fair value hierarchy contains three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs represent quoted prices in active markets for identical assets and liabilities as of the measurement date.

Level 2 – Inputs, other than those included in Level 1, represent observable measurements for similar instruments in active markets, or identical or similar instruments in markets that are not active, and observable measurements or market data for instruments with substantially the full term of the asset or liability.

Level 3 – Inputs represent unobservable measurements, supported by little, if any, market activity, and require considerable assumptions that are significant to the fair value of the asset or liability. Market valuations must often be determined using discounted cash flow methodologies, pricing models or similar techniques based on the Company's assumptions and best judgment.

The asset or liability's fair value within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Under ASC 820, fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability in an orderly transaction at the measurement date. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs and consider assumptions such as inherent risk, transfer restrictions, and risk of nonperformance.

Fair Value Measurements on a Recurring Basis

The following tables set forth information regarding the Company's financial instruments that are measured at fair value on a recurring basis in the accompanying condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012:

		Fair Value Measurements at Reporting Date Using	
	Fair Value at June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)