WASHINGTON PRIME GROUP INC.
Form 10-Q
April 26, 2018

UNITED STATES
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 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.) 333-205859 (Washington Prime Group, L.P.) (Commission File No.)	180 East Broad Street Columbus, Ohio 43215 (Address of principal executive offices)
46-4323686 (Washington Prime Group Inc.) 46-4674640 (Washington Prime Group, L.P.) (I.R.S. Employer Identification No.)	(614) 621-9000 (Registrant's telephone number, including area code)

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 x No o Washington Prime Group, L.P. 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).
Washington Prime Group Inc. Yes x No o Washington Prime Group, L.P. Yes x No o
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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o (Do not check if a smaller reporting company)

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

Large accelerated filer o Accelerated filer o
Non-accelerated filer x Smaller reporting company o
Emerging growth company o
(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 o No x Washington Prime Group, L.P. Yes o No x
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.

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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

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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)

	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	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-Controlling Interests	Total Equity	Redeemab Non-Contr 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
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 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							
	Preferred	Common	Total	Limited Partners	Total Partners' Equity	Non-Controlling Interests	Total Equity	Redeemable Non-Controlling Interests
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)
Other comprehensive income	—	4,396	4,396	821	5,217	—	5,217	—
Net income	3,508	14,016	17,524	2,601	20,125	—	20,125	60
Balance, March 31, 2018	$202,576	$872,300	$1,074,876	$161,592	$1,236,468	$1,053	$1,237,521	$ 3,265

The accompanying notes are an integral part of this statement.

Washington Prime Group Inc. and Washington Prime Group, L.P.
Condensed Notes to Unaudited Consolidated Financial Statements
(dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization

Washington Prime Group Inc. (“WPG Inc.”) is an Indiana corporation that operates as a fully integrated, self administered and self managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the "Code"). WPG Inc. will generally qualify as a REIT for U.S. federal income tax purposes as long as it continues to distribute not less than 90% of its REIT taxable income and satisfy certain other requirements. WPG Inc. will generally be allowed a deduction against its U.S. federal income tax liability for dividends paid by it to REIT shareholders, thereby reducing or eliminating any corporate level taxation to WPG Inc. Washington Prime Group, L.P. (“WPG L.P.”) is WPG Inc.'s majority owned limited partnership subsidiary that owns, develops and manages, through its affiliates, all of WPG Inc.'s real estate properties and other assets. WPG Inc. is the sole general partner of WPG L.P. As of March 31, 2018, our assets consisted of material interests in 108 shopping centers in the United States, consisting of open air properties and enclosed retail properties, comprised of approximately 59 million square feet of gross leasable area.

Unless the context otherwise requires, references to "WPG," the "Company," “we,” “us” or “our” refer to WPG Inc., WPG L.P. and entities in which WPG Inc. or WPG L.P. (or any affiliate) has a material ownership or financial interest, on a consolidated basis.

We derive our revenues primarily from retail tenant leases, including fixed minimum rent leases, overage and percentage rent leases based on tenants’ sales volumes, offering property operating services to our tenants and others, including energy, waste handling and facility services, and reimbursements from tenants for certain recoverable expenditures such as property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

We seek to enhance the performance of our properties and increase our revenues by, among other things, securing leases of anchor and inline tenant spaces, re developing or renovating existing properties to increase the leasable square footage, and increasing the productivity of occupied locations through aesthetic upgrades, re merchandising and/or changes to the retail use of the space.

2. Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated balance sheets as of March 31, 2018 and December 31, 2017 include the accounts of WPG Inc. and WPG L.P., as well as their majority owned and controlled subsidiaries. The accompanying consolidated statements of operations include the consolidated accounts of the Company. All intercompany transactions have been eliminated in consolidation. Due to the seasonal nature of certain operational activities, the results for the interim period ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by GAAP for interim reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The Company believes that the disclosures made are adequate to prevent the information presented from being misleading. These consolidated unaudited financial statements should be read in conjunction with the audited consolidated and combined financial statements and related notes included in the combined 2017 Annual Report on Form 10-K for WPG Inc. and WPG L.P. (the "2017 Form 10-K").

General

These consolidated financial statements reflect the consolidation of properties that are wholly owned or properties in which we own less than a 100% interest but that we control. Control of a property is demonstrated by, among other factors, our ability to refinance debt and sell the property without the consent of any other unaffiliated partner or owner, and the inability of any other unaffiliated partner or owner to replace us.

We consolidate a variable interest entity ("VIE") when we are determined to be the primary beneficiary. Determination of the primary beneficiary of a VIE is based on whether an entity has (1) the power to direct activities that most significantly impact the economic performance of the VIE and (2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our determination of the primary beneficiary of a VIE considers all relationships between us and the VIE, including management agreements and other contractual arrangements.

There have been no changes during the three months ended March 31, 2018 to any of our previous conclusions about whether an entity qualifies as a VIE or whether we are the primary beneficiary of any previously identified VIE. During the three months ended March 31, 2018, we did not provide financial or other support to a previously identified VIE that we were not previously contractually obligated to provide.

Investments in partnerships and joint ventures represent our noncontrolling ownership interests in properties. We account for these investments using the equity method of accounting. We initially record these investments at cost and we subsequently adjust for net equity in income or loss, which we allocate in accordance with the provisions of the applicable partnership or joint venture agreement and cash contributions and distributions, if applicable. The allocation provisions in the partnership or joint venture agreements are not always consistent with the legal ownership interests held by each general or limited partner or joint venture investee primarily due to partner preferences. We separately report investments in joint ventures for which accumulated distributions have exceeded investments in and our share of net income from the joint ventures within cash distributions and losses in unconsolidated entities, at equity in the consolidated balance sheets. The net equity of certain joint ventures is less than zero because of financing or operating distributions that are usually greater than net income, as net income includes non-cash charges for depreciation and amortization, and WPG has committed to or intends to fund the venture.

As of March 31, 2018, our assets consisted of material interests in 108 shopping centers. The consolidated financial statements as of that date reflect the consolidation of 91 wholly owned properties and four additional properties that are less than wholly owned, but which we control or for which we are the primary beneficiary. We account for our interests in the remaining 13 properties, or the joint venture properties, using the equity method of accounting. While we manage the day-to-day operations of the joint venture properties, we do not control the operations as we have determined that our partner or partners have substantive participating rights with respect to the assets and operations of these joint venture properties.

We allocate net operating results of WPG L.P. to third parties and to WPG Inc. based on the partners' respective weighted average ownership interests in WPG L.P. Net operating results of WPG L.P. attributable to third parties are reflected in net income attributable to noncontrolling interests. WPG Inc.'s weighted average ownership interest in WPG L.P. was 84.3% and 84.1% for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, WPG Inc.'s ownership interest in WPG L.P. was 84.4% and 84.3%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in WPG L.P.

3. Summary of Significant Accounting Policies

Fair Value Measurements

The Company measures and discloses its fair value measurements in accordance with Accounting Standards Codification ("ASC") Topic 820 - “Fair Value Measurement” (“Topic 820”). The fair value hierarchy, as defined by Topic 820, contains three levels of inputs that may be used to measure fair value as follows:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as interest rates, foreign exchange rates, and yield curves, that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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 Topic 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 and under current market conditions.

Use of Estimates

We prepared the accompanying consolidated financial statements in accordance with GAAP. This requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Our actual results could differ from these estimates.

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Segment Disclosure
Our primary business is the ownership, development and management of retail real estate. We have aggregated our operations, including enclosed retail properties and open air properties, into one reportable segment because they have similar economic characteristics and we provide similar products and services to similar types of, and in many cases, the same tenants.
New Accounting Pronouncements
Adoption of New Standards
On January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" using the modified retrospective approach. ASU 2014-09 revised GAAP by offering a single comprehensive revenue recognition standard instead of numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. The impacted revenue streams primarily consist of fees earned from management, development and leasing services provided to joint ventures in which we own an interest and other ancillary income earned from our properties. Upon adoption, we recorded a cumulative-effect adjustment to increase equity of approximately $2.5 million related to changes in the revenue recognition pattern of lease commissions earned by the Company from our joint ventures. We do not expect the adoption of ASU 2014-09 to have a material impact to our net income on an ongoing basis.
Additionally, we adopted the clarified scope guidance of ASC 610-20, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" in conjunction with ASU 2014-09, using the modified retrospective approach. ASC 610-20 applies to the sale, transfer and derecognition of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, and eliminates the guidance specific to real estate in ASC 360-20. With respect to full disposals, the recognition will generally be consistent with our current measurement and pattern of recognition. With respect to partial sales of real estate to joint ventures, the new guidance requires us to recognize a full gain where an equity investment is retained. These transactions could result in a basis difference as we will be required to measure our retained equity interest at fair value, whereas the joint venture may continue to measure the assets received at carryover basis. No adjustments were required upon adoption of this standard.
On January 1, 2018, we adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 aims to reduce complexity in cash value hedges of interest rate risk and eliminates the requirement to separately measure and report hedge ineffectiveness, generally requiring the entire change in the fair value of the hedging instrument to be presented in the same income statement line as the hedged item. Upon adoption, we recorded a cumulative-effect adjustment of $584 between accumulated other comprehensive income and retained earnings.
The cumulative effect of the changes to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09 and ASU 2017-12 were as follows:

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Adjustments Due to ASU 2017-12	Balance at January 1, 2018
Balance Sheet				
Liabilities				
Accounts payable, accrued expenses, intangibles, and deferred revenues	$264,998	$ (2,474)	$ —	$262,524
Equity				
Capital in excess of par value	$1,240,483	$ (389)	$ —	$1,240,094
Accumulated deficit	$(350,594)	$ 2,474	$ (584)	$(348,704)
Accumulated other comprehensive income	$6,920	$ —	$ 584	$7,504

Noncontrolling interests	$167,718	$ 389	$ —	$168,107

In accordance with ASU 2014-09 requirements, the disclosure of the impact of adoption on our consolidated statement of operations for three months ended March 31, 2018 and consolidated balance sheet as of March 31, 2018 was as follows:

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	For the Three Months Ended March 31, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Consolidated Statements of Operations			
Revenues			
Other income	$6,343	$ 6,203	$ 140

	March 31, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Balance Sheet			
Liabilities			
Accounts payable, accrued expenses, intangibles, and deferred revenues	$232,673	$235,287	$ (2,614)
Equity			
Capital in excess of par value	$1,241,978	$1,242,387	$ (409)
Accumulated deficit	$(381,597)	$(384,211)	$ 2,614
Noncontrolling interests	$162,645	$162,236	$ 409

On January 1, 2018, we adopted ASU 2016-15, "Statement of Cash Flows (Topic 230)" and ASU 2016-18 "Restricted Cash" using a retrospective transition approach, which changed our statements of cash flows and related disclosures for all periods presented. ASU 2016-15 is intended to reduce diversity in practice with respect to how certain transactions are classified in the statement of cash flows and its adoption had no impact on our financial statements. ASU 2016-18 requires that a statement of cash flows explain the change during the period in total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents.
The following is a summary of our cash, cash equivalents and restricted cash total as presented in our statements of cash flows for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
Cash and cash equivalents	$45,871	$94,531
Restricted cash	28,520	30,849
Total cash, cash equivalents and restricted cash	$74,391	$125,380

For the three months ended March 31, 2017, restricted cash related to cash flows provided by operating activities of $1.1 million and restricted cash related to cash flows used in investing activities of $0.6 million were reclassified. Restricted cash primarily relates to cash held in escrow for payment of real estate taxes and property reserves for maintenance, expansion or leasehold improvements as required by our mortgage loans. Restricted cash is included in "Deferred costs and other assets" in the accompanying balance sheets as of March 31, 2017 and December 31, 2017.

New Standards Issued But Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. It is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. In March 2018, the FASB indicated it intended to approve an amendment that provides an entity the optional transition method to initially account for the impact of the adoption ASU 2016-02 with a cumulative adjustment to retained earnings on January 1, 2019 (the effective date of the ASU), rather than January 1, 2017, which would eliminate the need to restate amounts presented prior to January 1, 2019. From a lessee perspective, the Company currently has four material ground leases and two material office leases that, under the new guidance, will result in the recognition of a lease liability and corresponding right-of-use asset.

From a lessor perspective, the new guidance remains mostly similar to current rules, though contract consideration will now be allocated between lease and non-lease components. Non-lease component allocations will be recognized under ASU 2014-09, and we expect that this will result in a different pattern of recognition for certain non-lease components, including for fixed common-area ("CAM") revenues. However, the FASB's intended amendment to ASU 2016-02 referred to above allows lessors to elect, as a practical expedient, not to allocate the total consideration to lease and non-lease components based on their relative standalone selling prices. This practical expedient will allow lessors to elect a combined single lease component presentation if (i) the timing and pattern of the revenue recognition of the combined single lease component is the same, and (ii) the combined single component would be classified as an operating lease. We believe we meet the criteria to use this practical expedient. In addition, ASU 2016-02 limits the capitalization of leasing costs to initial direct costs, which will likely result in a reduction to our capitalized leasing costs and an increase to general and administrative expenses, though the amount of such changes is highly dependent upon the leasing compensation structures in place at the time of adoption. For the three months ended March 31, 2018 and 2017, the Company deferred $4.1 million and $3.9 million of internal leasing costs, respectively. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

Revenue

The following table disaggregates our revenue by major source for the three months ended March 31, 2018:

	For the Three Months Ended March 31, 2018				
	Minimum rent	Overage rent	Tenant reimbursements	Other income	Total
Lease related	$123,339	$2,014	$ 48,644	$1,766	$175,763
Ancillary	—	—	—	1,649	1,649
Fee related	—	—	—	2,342	2,342
Other[1]	—	—	—	586	586
Total revenues	$123,339	$2,014	$ 48,644	$6,343	$180,340

[1] Primarily relates to insurance proceeds received from property insurance claims.

Minimum Rent

Minimum rent is recognized on a straight-line basis over the terms of their respective leases. Minimum rent also includes accretion related to above-market and below-market lease intangibles related to the acquisition of operating properties. We amortize any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the related lease or occupancy term of the tenant, if shorter.

Overage Rent

A large number of our retail tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. We recognize overage rents only when each tenant's sales exceed the applicable sales threshold

as defined in their lease.

Tenant Reimbursements
A substantial portion of our leases require the tenant to reimburse us for a material portion of our property operating expenses, including CAM, real estate taxes and insurance. Such property operating expenses typically include utility, insurance, security, janitorial, landscaping, food court and other administrative expenses. Tenant reimbursements are established in the leases or computed based upon a formula related to real estate taxes, insurance and other property operating expenses and are recognized as revenues in the period they are earned. When not reimbursed by the fixed CAM component, CAM expense reimbursements are based on the tenant's proportionate share of the allocable operating expenses and CAM capital expenditures for the property. We accrue reimbursements from tenants for recoverable portions of all these expenses as revenue in the period the applicable expenditures are incurred. We recognize differences between estimated recoveries and the final billed amounts in the subsequent year.
Other Income
Lease related: We collect lease termination income from tenants to allow for the tenant to vacate their space prior to their scheduled lease termination date. We recognize lease termination income in the period when a termination agreement is signed, collectability is assured, and we are no longer obligated to provide space to the tenant. In the event that a tenant is in bankruptcy when the termination agreement is signed, termination fee income is deferred and recognized when it is received.
Ancillary: We seek to monetize our common areas through robust ancillary programs. These programs include destination holiday experiences, customer service programs, sponsored children's play areas and local events, and static and digital media initiatives. We enter into agreements with unrelated third parties under these programs and charge a negotiated fee in exchange for providing the unrelated third party access to the common area as defined under the respective agreements. We recognize the fee as revenue as we satisfy our performance obligation, which typically occurs over one year.
Fee related: We collect fee income primarily from our unconsolidated joint ventures in exchange for providing management, leasing, and development services. Management fees are charged as a percentage of revenues (as defined in the applicable management agreements) and are recognized as revenue as we render such services. Leasing fees are charged on a fixed amount per square foot signed or a percentage of net rent negotiated within the underlying lease and are recognized upon lease execution. Development fees are charged on a contractual percentage of hard costs to develop the respective asset and are recognized as we satisfy our obligation to provide the development services.
4. Investment in Real Estate
2018 Dispositions
On January 12, 2018, we completed the sale of the first tranche of restaurant outparcels to FCPT Acquisitions, LLC ("Four Corners") pursuant to the purchase and sale agreement executed on September 20, 2017 between the Company and Four Corners. The first tranche consisted of 10 restaurant outparcels, with an allocated purchase price of approximately $13.7 million. The net proceeds of approximately $13.5 million were used to fund a portion of the acquisition of the Sears parcels on April 11, 2018 (see Note 11 - "Subsequent Events") and for general corporate purposes. Additionally, the Company expects to close on the remaining outparcels during the second half of 2018, subject to due diligence and closing conditions.
In connection with the 2018 disposition activities, the Company recorded a net gain of $8.2 million for the three months ended March 31, 2018, which is included in gain on disposition of interests in properties, net in the accompanying consolidated statements of operations and comprehensive income.
2017 Dispositions
On February 21, 2017, we completed the sale of Gulf View Square, located in Port Richey, Florida, and River Oaks Center, located in Chicago, Illinois, to unaffiliated private real estate investors for an aggregate purchase price of $42.0 million. The net proceeds from the transaction were used to reduce corporate debt.

On January 10, 2017, we completed the sale of Virginia Center Commons, located in Glen Allen, Virginia, to an unaffiliated private real estate investor for a purchase price of $9.0 million. The net proceeds from the transaction were used to reduce corporate debt.

In connection with the 2017 disposition activities, the Company recorded a net gain of $0.1 million for the three months ended March 31, 2017, which is included in gain on disposition of interests in properties, net in the accompanying consolidated statements of operations and comprehensive income.

Impairment

During the first quarter of 2017, the Company entered into a purchase and sale agreement to dispose of Morgantown Commons, which was sold in the second quarter of 2017. We shortened the hold period used in assessing impairment for the asset during the quarter ended March 31, 2017, which resulted in the carrying value not being recoverable from the expected cash flows. The purchase offer represented the best available evidence of fair value for this property. We compared the fair value to the carrying value, which resulted in the recording of an impairment charge of approximately $8.5 million in the accompanying consolidated statements of operations and comprehensive income for the three months ended March 31, 2017.

5. Investment in Unconsolidated Entities, at Equity

The Company's investment activity in unconsolidated real estate entities during the three months ended March 31, 2018 and March 31, 2017 consisted of investments in the following material joint ventures:

- The O'Connor Joint Venture I

This investment consists of a 51% noncontrolling interest held by the Company in a portfolio of five enclosed retail properties and related outparcels, consisting of the following: The Mall at Johnson City located in Johnson City, Tennessee; Pearlridge Center located in Aiea, Hawaii; Polaris Fashion Place® located in Columbus, Ohio; Scottsdale Quarter® located in Scottsdale, Arizona; and Town Center Plaza (which consists of Town Center Plaza and the adjacent Town Center Crossing) located in Leawood, Kansas. We retained management, leasing, and development responsibilities for the O'Connor Joint Venture I.

On March 2, 2017, the O'Connor Joint Venture I closed on the purchase of Pearlridge Uptown II, a 153,000 square foot wing of Pearlridge Center, for a gross purchase price of $70.0 million.

On March 30, 2017, the O'Connor Joint Venture I closed on a $43.2 million non-recourse mortgage note payable with an eight year term and a fixed interest rate of 4.071% secured by Pearlridge Uptown II. The mortgage note payable requires monthly interest only payments until April 1, 2019, at which time monthly interest and principal payments are due until maturity.

On March 29, 2017, the O'Connor Joint Venture I closed on a $55.0 million non-recourse mortgage note payable with a ten year term and a fixed interest rate of 4.36% secured by sections of Scottsdale Quarter® known as Block K and Block M. The mortgage note payable requires monthly interest only payments until May 1, 2022, at which time monthly interest and principal payments are due until maturity.

- The O'Connor Joint Venture II

During the quarter ended June 30, 2017, we completed an additional joint venture transaction with O'Connor Mall Partners, L.P. ("O'Connor"), an unaffiliated third party and our partner in the O'Connor Joint Venture I, with respect to the ownership and operation of seven retail properties and certain related outparcels, consisting of the following: The Arboretum, located in Austin, Texas; Arbor Hills, located in Ann Arbor, Michigan; Classen Curve and The Triangle at Classen Curve, each located in Oklahoma City, Oklahoma and Nichols Hills Plaza, located in Nichols Hills, Oklahoma (the "Oklahoma City Properties"); Gateway Centers, located in Austin, Texas; Malibu Lumber Yard, located in Malibu, California; Palms Crossing I and II, located in McAllen, Texas; and The Shops at Arbor Walk, located in Austin, Texas. Under the terms of the agreement, we retained a 51% noncontrolling interest in the O'Connor Joint Venture II and sold the remaining 49% interest to O'Connor. We retained management and leasing responsibilities for the properties included in the O'Connor Joint Venture II.

- The Seminole Joint Venture

This investment consists of a 45% legal interest held by the Company in Seminole Towne Center, an approximate 1.1 million square foot enclosed regional retail property located in the Orlando, Florida area. The Company's effective financial interest in this property (after preferences) is estimated to be approximately 8% for 2018. We retain management and leasing responsibilities for the Seminole Joint Venture.

Advances to the O'Connor Joint Venture I and O'Connor Joint Venture II totaled $4.4 million and $4.3 million as of March 31, 2018 and December 31, 2017, respectively, which are included in investment in and advances to

unconsolidated entities, at equity in the accompanying consolidated balance sheets. Management deems this balance to be collectible and anticipates repayment within one year.

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The following table presents the combined balance sheets for the O'Connor Joint Venture I, O'Connor Joint Venture II, the Seminole Joint Venture, and an indirect 12.5% ownership interest in certain real estate as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Assets:		
Investment properties at cost, net	$1,961,419	$1,972,208
Construction in progress	43,139	44,817
Cash and cash equivalents	31,313	40,955
Tenant receivables and accrued revenue, net	30,869	30,866
Deferred costs and other assets (1)	174,266	174,665
Total assets	$2,241,006	$2,263,511
Liabilities and Members' Equity:		
Mortgage notes payable	$1,299,838	$1,302,143
Accounts payable, accrued expenses, intangibles, and deferred revenues(2)	150,573	148,273
Total liabilities	1,450,411	1,450,416
Members' equity	790,595	813,095
Total liabilities and members' equity	$2,241,006	$2,263,511
Our share of members' equity, net	$402,800	$414,245
Our share of members' equity, net	$402,800	$414,245
Advances and excess investment	23,359	22,173
Net investment in and advances to unconsolidated entities, at equity(3)	$426,159	$436,418

(1) Includes value of acquired in-place leases and acquired above-market leases with a net book value of $103,905 and $107,869 as of March 31, 2018 and December 31, 2017, respectively.
(2) Includes the net book value of below market leases of $65,148 and $69,269 as of March 31, 2018 and December 31, 2017, respectively.
(3) Includes $441,580 and $451,839 of investment in and advances to unconsolidated entities, at equity as of March 31, 2018 and December 31, 2017, respectively, and $15,421 of cash distributions and losses in unconsolidated entities, at equity as of March 31, 2018 and December 31, 2017.

The following table presents the combined statements of operations for the O'Connor Joint Venture II for the three months ended March 31, 2018 and the O'Connor Joint Venture I, the Seminole Joint Venture, and an indirect 12.5% ownership interest in certain real estate for all periods presented during which the Company accounted for these investments as unconsolidated entities for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
Total revenues	$65,902	$48,434
Operating expenses	25,869	20,591
Depreciation and amortization	23,461	19,034
Operating income	16,572	8,809
Interest expense, taxes, and other, net	(13,039)	(8,460)
Net income from the Company's unconsolidated real estate entities	$3,533	$349

Our share of income (loss) from the Company's unconsolidated real estate entities	$1,162	$(444)

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6. Indebtedness

Mortgage Debt

Total mortgage indebtedness at March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018	December 31, 2017
Face amount of mortgage loans	$1,061,335	$1,152,436
Fair value adjustments, net	7,681	8,338
Debt issuance cost, net	(3,421)	(3,692)
Carrying value of mortgage loans	$1,065,595	$1,157,082

A roll forward of mortgage indebtedness from December 31, 2017 to March 31, 2018 is summarized as follows:

Balance at December 31, 2017	$1,157,082
Debt amortization payments	(4,601)
Repayment of debt	(86,500)
Amortization of fair value and other adjustments	(657)
Amortization of debt issuance costs	271
Balance at March 31, 2018	$1,065,595

On January 19, 2018, an affiliate of WPG Inc. repaid the $86.5 million mortgage loan on The Outlet Collection® | Seattle, located in Auburn, Washington. This repayment was funded by borrowings on the Revolver (as defined below).

Unsecured Debt

On January 22, 2018, WPG L.P. amended and restated $1.0 billion of the existing facility. The recast Facility (as defined below) can be increased to $1.5 billion through currently uncommitted Facility commitments. Excluding the accordion feature, the recast Facility includes a $650.0 million Revolver (as defined below) and $350.0 million Term Loan (as defined below). The $350.0 million Term Loan was fully funded at closing, and the Company used the proceeds to repay the $270.0 million outstanding on the June 2015 Term Loan (as defined below) and to pay down the Revolver.

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The following table identifies our total unsecured debt outstanding at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Notes payable:		
Face amount - the Exchange Notes[1]	$250,000	$ 250,000
Face amount - 5.950% Notes due 2024[2]	750,000	750,000
Debt discount, net	(10,742)	(11,086)
Debt issuance costs, net	(9,062)	(9,542)
Total carrying value of notes payable	$980,196	$ 979,372
Unsecured term loans:[8]		
Face amount - Term Loan[3][4]	$350,000	$ —
Face amount - December 2015 Term Loan[5]	340,000	340,000
Face amount - June 2015 Term Loan[6]	—	270,000
Debt issuance costs, net	(5,299)	(3,305)
Total carrying value of unsecured term loans	$684,701	$ 606,695
Revolving credit facility:[3][7]		
Face amount	$200,000	$ 155,000
Debt issuance costs, net	(4,845)	(540)
Total carrying value of revolving credit facility	$195,155	$ 154,460

(1) The Exchange Notes were issued at a 0.028% discount, bear interest at 3.850% per annum and mature on April 1, 2020.
(2) The 5.950% Notes due 2024 were issued at a 1.533% discount, bear interest at 5.950% per annum, and mature on August 15, 2024. The interest rate could vary in the future based upon changes to the Company's credit ratings.
(3) The unsecured revolving credit facility, or "Revolver" and unsecured term loan, or "Term Loan" are collectively known as the "Facility."
(4) The Term Loan bears interest at one-month LIBOR plus 1.45% per annum and will mature on December 30, 2022. We have interest rate swap agreements totaling $270.0 million, which effectively fixed the interest rate on a portion of the Term Loan at 2.56% per annum through June 30, 2018. At March 31, 2018, the applicable interest rate on the unhedged portion of the Term Loan was one-month LIBOR plus 1.45% or 3.33%.
(5) The December 2015 Term Loan bears interest at one-month LIBOR plus 1.80% per annum and will mature on January 10, 2023. We have interest rate swap agreements totaling $340.0 million which effectively fix the interest rate at 3.51% per annum through maturity.
(6) The June 2015 Term Loan bore interest at one-month LIBOR plus 1.45% per annum. During the three months ended March 31, 2018, the Company repaid the June 2015 Term Loan and wrote off $0.5 million of debt issuance costs.
(7) As of December 31, 2017, the Revolver provided borrowings on a revolving basis up to $900.0 million, bore interest at one-month LIBOR plus 1.25%, and was initially scheduled to mature on May 30, 2018. During the three months ended March 31, 2018, we amended the terms of the Revolver to provide borrowings on a revolving basis up to $650.0 million at one-month LIBOR plus 1.25%. Under the amended terms, the Revolver will mature on December 30, 2021, subject to two six-month extensions available at our option subject to compliance with terms of the Facility and payment of a customary extension fee. Upon the amended terms, the Company wrote off $0.3 million of debt issuance costs. At March 31, 2018, we had an aggregate available borrowing capacity of $449.8 million under the Revolver, net of $0.2 million reserved for outstanding letters of credit. At March 31, 2018, the applicable interest rate on the Revolver was one-month LIBOR plus 1.25% or 3.13%.

[8] While we have interest rate swap agreements in place that fix the LIBOR portion of the rates as noted above, the spread over LIBOR could vary in the future based upon changes to the Company's credit ratings.

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Covenants

Our unsecured debt agreements contain financial and other covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender including adjustments to the applicable interest rate. As of March 31, 2018, management believes the Company is in compliance with all covenants of its unsecured debt.

The total balance of mortgages was approximately $1.1 billion as of March 31, 2018. At March 31, 2018, certain of our consolidated subsidiaries were the borrowers under 23 non-recourse loans and one full-recourse loan secured by mortgages encumbering 27 properties, including one separate pool of cross-defaulted and cross-collateralized mortgages encumbering a total of four properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non-financial covenants which are specific to the properties which serve as collateral for that debt. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. Our existing non-recourse mortgage loans generally prohibit our subsidiaries that are borrowers thereunder from incurring additional indebtedness, subject to certain customary and limited exceptions. In addition, certain of these instruments limit the ability of the applicable borrower's parent entity from incurring mezzanine indebtedness unless certain conditions are satisfied, including compliance with maximum loan to value ratio and minimum debt service coverage ratio tests. Further, under certain of these existing agreements, if certain cash flow levels in respect of the applicable mortgaged property (as described in the applicable agreement) are not maintained for at least two consecutive quarters, the lender could accelerate the debt and enforce its right against its collateral. At March 31, 2018, management believes the applicable borrowers under our non-recourse mortgage loans were in compliance with all covenants where non-compliance could individually, or giving effect to applicable cross-default provisions in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows (see Note 11 - "Subsequent Events" for details of events subsequent to March 31, 2018).

Fair Value of Debt

The carrying values of our variable-rate loans approximate their fair values. We estimate the fair values of fixed-rate mortgages and fixed-rate unsecured debt (including variable-rate unsecured debt swapped to fixed-rate) using cash flows discounted at current borrowing rates. We estimate the fair values of consolidated fixed-rate unsecured notes payable using quoted market prices, or, if no quoted market prices are available, we use quoted market prices for securities with similar terms and maturities.

The book value and fair value of these financial instruments and the related discount rate assumptions as of March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018	December 31, 2017
Book value of fixed-rate mortgages[1]	$996,335	$1,000,936
Fair value of fixed-rate mortgages	$1,006,373	$1,024,890
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	4.48 %	4.19 %
Book value of fixed-rate unsecured debt[1]	$1,610,000	$1,610,000
Fair value of fixed-rate unsecured debt	$1,532,072	$1,616,810
Weighted average discount rates assumed in calculation of fair value for fixed-rate unsecured debt	4.90 %	4.27 %

(1) Excludes debt issuance costs and applicable debt discounts.

7. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives the Company primarily uses interest rate swaps or caps as part of its interest rate risk management strategy. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company may also enter into forward starting swaps or treasury lock agreements to set the effective interest rate on a planned fixed-rate financing. In a forward starting swap or treasury lock agreement that the Company cash settles in anticipation of a fixed rate financing or refinancing, the Company will receive or pay an amount equal to the present value of future cash flow payments based on the difference between the contract rate and market rate on the settlement date. On January 1, 2018, the Company adopted ASU 2017-12, as permitted under the standard (see Note 3 - "Summary of Significant Accounting Policies" for additional details).

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in other comprehensive income ("OCI") or other comprehensive loss (“OCL”) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Net realized gains or losses resulting from derivatives that were settled in conjunction with planned fixed-rate financings or refinancings continue to be included in accumulated other comprehensive income ("AOCI") during the term of the hedged debt transaction.

Amounts reported in AOCI relate to derivatives that will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Realized gains or losses on settled derivative instruments included in AOCI are recognized as an adjustment to income over the term of the hedged debt transaction. During the next twelve months, the Company estimates that an additional $2.7 million will be reclassified as a decrease to interest expense.

As of March 31, 2018, the Company had 8 outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk with a notional value of $610,000.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of March 31, 2018 and December 31, 2017:

Derivatives designated as hedging instruments:		Balance Sheet Location	March 31, 2018	December 31, 2017
Interest rate products	Asset derivatives	Deferred costs and other assets	$ 13,164	$ 7,413

The asset derivative instruments were reported at their fair value of $13,164 and $7,413 in deferred costs and other assets at March 31, 2018 and December 31, 2017, respectively, with a corresponding adjustment to OCI for the

unrealized gains and losses (net of noncontrolling interest allocation). There were no derivatives in a liability position at March 31, 2018 and December 31, 2017. Over time, the unrealized gains and losses held in AOCI will be reclassified to earnings. This reclassification will correlate with the recognition of the hedged interest payments in earnings.

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of comprehensive income for the three months ended March 31, 2018 and 2017:

Derivatives in Cash Flow Hedging Relationships (Interest rate products)	Location of Gain or (Loss) Recognized in Income on Derivatives	For the Three Months Ended March 31,	
		2018	2017
Amount of Gain Recognized in OCI on Derivative		$5,997	$1,263
Amount of (Loss) or Gain Reclassified from AOCI into Income	Interest expense	$(780)	$1,086

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months ended March 31, 2018 and 2017:

Effect of Cash Flow Hedges on Consolidated Statements of Operations	For the Three Months Ended March 31,	
	2018	2017
Total interest (expense) presented in the consolidated statements of operations in which the effects of cash flow hedges are recorded	$(34,344)	$(32,488)
Amount of (loss) gain reclassified from accumulated other comprehensive income into interest expense	$(780)	$1,086

Credit Risk-Related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision that if the Company either defaults or is capable of being declared in default on any of its consolidated indebtedness, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with its derivative counterparties that incorporate the loan covenant provisions of the Company's indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of March 31, 2018, the Company did not have any derivative instruments that contain credit-risk related contingent features that are in a net liability position.

Fair Value Considerations

Currently, the Company uses interest rate swaps and caps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. Based on these inputs the Company has determined that its interest rate swap and cap valuations are classified within Level 2 of the fair value hierarchy.

To comply with the provisions of Topic 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2018 and December 31, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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The tables below presents the Company’s net assets and liabilities measured at fair value as of March 31, 2018 and December 31, 2017 aggregated by the level in the fair value hierarchy within which those measurements fall:

	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2018
Derivative instruments, net	$ —	$ 13,164	$ —	$13,164

	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Derivative instruments, net	$ —	$ 7,413	$ —	$ 7,413

8. Equity

Exchange Rights

Subject to the terms of the limited partnership agreement of WPG L.P., limited partners in WPG L.P. have, at their option, the right to exchange all or any portion of their units for shares of WPG Inc. common stock on a one for one basis or cash, as determined by WPG Inc. Therefore, the common units held by limited partners are considered by WPG Inc. to be share equivalents and classified as noncontrolling interests within permanent equity, and classified by WPG L.P. as permanent equity. The amount of cash to be paid if the exchange right is exercised and the cash option is selected will be based on the market value of WPG Inc.'s common stock as determined pursuant to the terms of the WPG L.P. Partnership Agreement. At March 31, 2018, WPG Inc. had reserved 34,758,387 shares of common stock for possible issuance upon the exchange of units held by limited partners.

The holders of the Series I-1 Preferred Units have, at their option, the right to have their units purchased by WPG L.P. subject to the satisfaction of certain conditions. Therefore, the Series I-1 Preferred Units are classified as redeemable noncontrolling interests outside of permanent equity.

Stock Based Compensation

On May 28, 2014, the Board adopted the Washington Prime Group, L.P. 2014 Stock Incentive Plan (the "Plan"), which permits the Company to grant awards to current and prospective directors, officers, employees and consultants of the Company or any affiliate. An aggregate of 10,000,000 shares of common stock has been reserved for issuance under the Plan. In addition, the maximum number of awards to be granted to a participant in any calendar year is 500,000 shares/units. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs") or other stock-based awards in WPG Inc., long term incentive units ("LTIP units" or "LTIPs") or performance units ("Performance LTIP Units") in WPG L.P. The Plan terminates on May 28, 2024.

The following is a summary by type of the awards that the Company issued during the three months ended March 31, 2018 and March 31, 2017 under the Plan.

Annual Long-Term Incentive Awards

During the three months ended March 31, 2018 and 2017, the Company approved the terms and conditions of the 2018 and 2017 annual awards (the "2018 Annual Long-Term Incentive Awards" and "2017 Long-Term Incentive

Awards," respectively) for certain executive officers and employees of the Company. Under the terms of the awards program, each participant is provided the opportunity to receive (i) time-based RSUs and (ii) performance-based stock units ("PSUs"). RSUs represent a contingent right to receive one WPG Inc. common share for each vested RSU. RSUs will vest in one-third installments on each annual anniversary of the respective Grant Date (as referenced below), subject to the participant's continued employment with the Company through each vesting date and the participant's continued compliance with certain applicable covenants. During the service period, dividend equivalents will be paid with respect to the RSUs corresponding to the amount of any dividends paid by the Company to the Company's common shareholders for the applicable dividend payment dates. Compensation expense is recognized on a straight-line basis over the three year vesting term. Actual PSUs earned may range from 0%-150% of the PSUs allocated to the award recipient, based on the Company's total shareholder return ("TSR") compared to a peer group based on companies with similar assets and revenue over a three-year performance period that commenced on the respective Grant Date (as referenced below).

During the performance period, dividend equivalents corresponding to the amount of any regular cash dividends paid by the Company to the Company's common shareholders for the applicable dividend payment dates will accrue and be deemed reinvested in additional PSUs, which will be settled in common shares at the same time and only to the extent that the underlying PSU is earned and settled in common shares. Payout of the PSUs is also subject to the participant's continued employment with the Company through the end of the performance period. The awards were valued through the use of a Monte Carlo model and the related compensation expense is recognized over the three-year performance period.
The following table summarizes the issuance of the 2018 Annual Long-Term Incentive Awards and 2017 Annual Long-Term Incentive Awards, respectively:

	2018 Annual Long-Term Incentive Awards	2017 Annual Long-Term Incentive Awards
Grant Date	February 20, 2018	February 21, 2017
RSUs issued	587,000	358,198
Grant date fair value per unit	$6.10	$9.58
PSUs issued	587,000	358,198
Grant date fair value per unit	$4.88	$7.72

During the three months ended March 31, 2017, the Company awarded 324,237 of RSUs, with a grant date fair value of $2.2 million, that constituted the payout for the 2016 annual awards and which will vest in one-third installments on each of February 21, 2018, 2019 and 2020.
Stock Options
During the three months ended March 31, 2018, no stock options were granted from the Plan to employees, no stock options were exercised by employees and 23,296 stock options were canceled, forfeited or expired. As of March 31, 2018, there were 770,718 stock options outstanding.
During the three months ended March 31, 2017, no stock options were granted from the Plan to employees, 1,566 stock options were exercised by employees and 34,452 stock options were canceled, forfeited or expired.
Share Award Related Compensation Expense
During the three months ended March 31, 2018 and 2017, the Company recorded compensation expense pertaining to the awards granted under the Plan of $1.7 million and $1.5 million, respectively, in general and administrative and property operating expense within the consolidated statements of operations and comprehensive income. In certain instances, employment agreements and stock compensation programs provide for accelerated vesting when executives are terminated without cause. Additionally, the Compensation Committee of the Board may, in its discretion, accelerate the vesting for retiring Board members.
Distributions
During the three months ended March 31, 2018 and 2017, the Board declared common share/unit dividends of $0.25 per common share/unit.
9. Commitments and Contingencies
Litigation
We are involved from time-to-time in various legal proceedings that arise in the ordinary course of our business, including, but not limited to commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

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Concentration of Credit Risk

Our properties rely heavily upon anchor or major tenants to attract customers; however, these retailers do not constitute a material portion of our financial results. Additionally, many anchor retailers in the enclosed retail properties own their spaces further reducing their contribution to our operating results. All operations are within the United States and no customer or tenant accounts for 5% or more of our consolidated revenues.

10. Earnings Per Common Share/Unit

WPG Inc. Earnings Per Common Share

We determine WPG Inc.'s basic earnings per common share based on the weighted average number of shares of common stock outstanding during the period and we consider any participating securities for purposes of applying the two-class method. We determine WPG Inc.'s diluted earnings per share based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding assuming all potentially dilutive securities were converted into common shares at the earliest date possible.

The following table sets forth the computation of WPG Inc.'s basic and diluted earnings per common share:

	For the Three Months Ended March 31,	
	2018	2017
Earnings Per Common Share, Basic:		
Net income attributable to common shareholders - basic	$14,016	$ 9,302
Weighted average shares outstanding - basic	187,309,744	186,278,173
Earnings per common share, basic		