Washington Prime Group Inc.
Form 10-Q
November 04, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Washington Prime Group Inc.

(Exact name of Registrant as specified in its charter)

Indiana
(State of incorporation or organization)

001-36252
(Commission File No.)

046-4323686
(I.R.S. Employer Identification No.)

7315 Wisconsin Avenue, Suite 500 East
Bethesda, Maryland 20814
(Address of principal executive offices)

(240) 630-0000
(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. Yes ý 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 ý 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 (check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer ý Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No ý

As of October 29, 2014, registrant had 155,162,597 shares of common stock outstanding.

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Washington Prime Group Inc.

Unaudited Consolidated and Combined Balance Sheets

(Dollars in thousands, except share amounts)

	September 30, 2014	December 31, 2013
ASSETS:		
Investment properties at cost	**$ 5,210,439**	$ 4,789,705
Less accumulated depreciation	**2,069,421**	1,974,949
	3,141,018	2,814,756
Cash and cash equivalents	**120,808**	25,857
Tenant receivables and accrued revenue, net	**61,053**	61,121
Investment in unconsolidated entities, at equity	**5,242**	3,554
Deferred costs and other assets	**170,809**	97,370
Total assets	**$ 3,498,930**	$ 3,002,658
LIABILITIES:		
Mortgage notes payable	**$ 1,501,566**	$ 918,614
Unsecured term loan	**500,000**	
Revolving credit facility	**340,750**	
Accounts payable, accrued expenses, intangibles, and deferred revenues	**152,004**	151,011
Cash distributions and losses in partnerships and joint ventures, at equity	**15,245**	41,313
Other liabilities	**23,561**	7,195
Total liabilities	**2,533,126**	1,118,133
EQUITY:		
Stockholders' Equity		
Common stock, $0.0001 par value, 300,000,000 shares authorized, 155,162,597 issued and outstanding in 2014	**16**	
Capital in excess of par value	**722,140**	
SPG Equity		1,565,169
Retained earnings	**73,276**	
Total stockholders' equity	**795,432**	1,565,169
Noncontrolling interests	**170,372**	319,356
Total equity	**965,804**	1,884,525

Total liabilities and equity	**$**	**3,498,930**	$	3,002,658

The accompanying notes are an integral part of these statements.

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Washington Prime Group Inc.

Unaudited Consolidated and Combined Statements of Operations

(Dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
REVENUE:				
Minimum rent	**$ 113,887**	$ 104,905	**$ 328,898**	$ 313,390
Overage rent	**1,747**	1,396	**4,991**	5,000
Tenant reimbursements	**50,814**	47,523	**145,161**	138,698
Other income	**1,236**	1,555	**4,778**	4,096
Total revenue	**167,684**	155,379	**483,828**	461,184
EXPENSES:				
Property operating	**29,268**	27,713	**81,627**	77,533
Depreciation and amortization	**49,307**	46,771	**142,563**	137,171
Real estate taxes	**20,430**	20,144	**59,129**	58,501
Repairs and maintenance	**5,169**	5,001	**17,253**	15,890
Advertising and promotion	**1,954**	2,270	**5,838**	6,215
Provision for (recovery of) credit losses	**447**	376	**1,852**	260
General and administrative	**4,395**	0	**6,260**	0
Transaction and related costs	**0**	0	**39,931**	0
Merger costs	**2,500**	0	**2,500**	0
Ground rent and other costs	**1,108**	1,017	**3,508**	3,371
Total operating expenses	**114,578**	103,292	**360,461**	298,941
OPERATING INCOME	**53,106**	52,087	**123,367**	162,243
Interest expense	**(23,219)**	(13,791)	**(59,813)**	(41,247)
Income and other taxes	**(134)**	(68)	**(275)**	(170)
Income from unconsolidated entities	**99**	353	**846**	852
Gain upon acquisition of controlling interests and on sale of interests in properties	**8,969**	0	**100,479**	14,152
NET INCOME	**38,821**	38,581	**164,604**	135,830
Net income attributable to noncontrolling interests	**6,620**	6,347	**28,210**	23,116
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	**$ 32,201**	$ 32,234	**$ 136,394**	$ 112,714

EARNINGS PER COMMON SHARE, BASIC AND DILUTED						
Net income attributable to common stockholders	**$**	**0.21**	$ 0.21	**$**	**0.88**	$ 0.73

The accompanying notes are an integral part of these statements.

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Washington Prime Group Inc.

Unaudited Consolidated and Combined Statements of Cash Flows

(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 164,604**	$ 135,830
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**143,768**	138,518
Gain upon acquisition of controlling interests and on sale of interests in properties	**(100,479)**	(14,152)
Loss on debt extinguishment	**2,894**	0
Provision for (recovery of) credit losses	**1,852**	260
Straight-line rent	**(464)**	69
Equity in income of unconsolidated entities	**(846)**	(852)
Distributions of income from unconsolidated entities	**880**	1,114
Changes in assets and liabilities		
Tenant receivables and accrued revenue, net	**335**	1,187
Deferred costs and other assets	**(13,423)**	(237)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	**(176)**	(16,591)
Net cash provided by operating activities	**198,945**	245,146
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	**(154,370)**	0
Capital expenditures, net	**(63,868)**	(67,230)
Net proceeds from sale of assets	**24,976**	0
Investments in unconsolidated entities	**(2,493)**	(1,956)
Distributions of capital from unconsolidated entities	**1,180**	3,274
Net cash used in investing activities	**(194,575)**	(65,912)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to SPG, net	**(1,060,187)**	(173,552)
Distributions to noncontrolling interest holders in properties	**(845)**	(261)
Distributions on common shares/units	**(47,055)**	0
Proceeds from issuance of debt, net of transaction costs	**1,379,575**	
Repayments of debt including prepayment penalties	**(180,907)**	(7,763)
Net cash provided by (used in) financing activities	**90,581**	(181,576)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**94,951**	(2,342)
CASH AND CASH EQUIVALENTS, beginning of period	**25,857**	30,986

CASH AND CASH EQUIVALENTS, end of period	**$**	**120,808**	$	28,644

The accompanying notes are an integral part of these statements.

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined 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" or the "Company") is an Indiana corporation that was created to hold the strip center business and smaller enclosed malls of Simon Property Group, Inc. ("SPG") and its subsidiaries. Prior to the separation from SPG which was completed on May 28, 2014, WPG was a wholly owned subsidiary of SPG. Prior to or concurrent with the separation, SPG engaged in certain formation transactions that were designed to consolidate the ownership of its interests in 98 properties ("SPG Businesses") and distribute such interests to WPG and its operating partnership, Washington Prime Group, L.P. ("WPG L.P."). WPG L.P. is our majority owned partnership subsidiary that owns all of our real estate properties and other assets. Pursuant to the separation agreement, SPG distributed 100% of the common shares of WPG on a pro rata basis to SPG's shareholders as of the record date.

Unless the context otherwise requires, references to "we", "us" and "our" refer to Washington Prime Group Inc. after giving effect to the transfer of assets and liabilities from SPG as well as to the SPG Businesses prior to the date of the completion of the separation. Before the completion of the separation, SPG Businesses were operated as subsidiaries of SPG, which operates as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. WPG operates as a REIT subsequent to the separation and distribution. REITs will generally not be liable for federal corporate income taxes as long as they continue to distribute not less than 100% of their taxable income and satisfy certain other requirements.

At the time of the separation and distribution, WPG owned a percentage of the outstanding units of partnership interest, or units, of WPG L.P. that is approximately equal to the percentage of outstanding units of partnership interest of Simon Property Group, L.P. ("SPG L.P.") owned by SPG, with the remaining units of WPG L.P. being owned by the limited partners who were also limited partners of SPG L.P. as of the May 16, 2014 record date. The units in WPG L.P. are convertible by their holders for WPG common shares on a one-for-one basis or, at WPG's option, into cash. Before the separation, we had not conducted any business as a separate company and had no material assets or liabilities. The operations of the business transferred to us by SPG on the spin-off date are presented as if the transferred business was our business for all historical periods described and at the carrying value of such assets and liabilities reflected in SPG's books and records. Additionally, the financial statements reflect the common shares and units outstanding at the separation date as outstanding for all periods prior to the separation.

Prior to the separation, WPG entered into agreements with SPG under which SPG provides various services to us, including accounting, asset management, development, human resources, information technology, leasing, legal, marketing, public reporting and tax. The charges for the services are based on an hourly or per transaction fee arrangement and pass-through of out-of-pocket costs (see Note 8).

At the time of the separation, our assets consisted of interests in 98 shopping centers. In addition to the above properties, the combined historical financial statements include interests in three shopping centers held within a joint venture portfolio of properties which were sold during the first quarter of 2013 as well as one additional shopping center which was sold by that same joint venture on February 28, 2014.

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

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

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 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.

Proposed Merger

On September 16, 2014, the Company entered into a definitive agreement with Glimcher Realty Trust ("Glimcher") under which it will acquire Glimcher in a stock and cash transaction valued at $14.20 per Glimcher common share (the "Merger"). Under the terms of the Merger, which has been unanimously approved by the Board of Directors of the Company and the Board of Trustees of Glimcher, Glimcher shareholders will receive, for each Glimcher share, $10.40 in cash and 0.1989 of a share of the Company's common stock at closing. The total transaction value, including the assumption of debt, is approximately $4.3 billion assuming the stock portion of the consideration is valued at $3.80 per Glimcher common share, based on the ten day volume weighted average price of the Company's common stock prior to the date of the Merger agreement. We estimate that approximately 28.8 million shares of WPG common stock will be issued to Glimcher shareholders in the Merger. Additionally included in consideration are operating partnership units and preferred stock as noted below. The new company, to be named WP Glimcher, will be comprised of approximately 68 million square feet of gross leasable area (compared to approximately 53 million square feet for the Company as of September 30, 2014) and will have a combined portfolio of 119 properties.

As described in our Registration Statement on Form S-4 filed on October 28, 2014 pertaining to the Merger (the "Form S-4"), in the Merger, the preferred stock of Glimcher will be converted into preferred stock of WPG and each outstanding unit of Glimcher's operating partnership will be converted into 0.7431 of a unit of WPG LP. Further, each outstanding stock option in respect of Glimcher common stock will be converted into a WPG option, and certain other Glimcher equity awards will be assumed by WPG and converted into equity awards in respect of WPG common shares.

Concurrent with the execution of the Merger agreement, the Company entered into a definitive agreement with SPG under which SPG will acquire Jersey Gardens in Elizabeth, New Jersey, and University Park Village in Fort Worth, Texas, properties currently owned by Glimcher, for an aggregate cash purchase price of $1.09 billion, of which $424.0 million will be used to repay associated mortgage indebtedness. Completion of the sale of these properties to SPG will occur concurrent with the closing of the acquisition of Glimcher by WPG.

On September 16, 2014, in connection with the execution of the Merger agreement, WPG entered into a debt commitment letter, which was amended and restated on September 23, 2014 and October 6, 2014, pursuant to which the commitment parties agreed to provide an up to $1.25 billion senior unsecured bridge loan facility. The facility will mature on the date that is 364 days following the closing date of the Merger. The interest rate payable on amounts outstanding under the facility will be equal to three-month LIBOR plus an applicable margin based on WPG's credit rating, which increases on the 180th and

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

270th days following the consummation of the Merger. In addition, an increasing duration fee will be payable on the 180th and 270th days following the consummation of the Merger on the outstanding principal amount, if any, under the facility. The facility will not amortize and any amounts outstanding will be repaid in full on the maturity date. The facility is expected to contain events of default, representations and warranties and covenants that are substantially identical to those contained in WPG's existing credit agreement (subject to certain exceptions set forth in the debt commitment letter).

Completion of the Merger is subject to, among other things, approval by the holders of the Glimcher common shares. Assuming approval is obtained, the Merger transaction is expected to close in the first quarter of 2015. The cash portion of the Merger consideration is expected to be funded by the sale of the two properties to SPG, joint ventures with institutional partners, other assets sales, capital markets transactions, and/or draws under the $1.25 billion fully committed bridge facility. The Company can give no assurance that the Merger and related transactions will be completed in the above timeframe, if at all. During the third quarter of 2014, the Company incurred $2.5 million of fairness opinion fees related to the Merger, which are included in merger costs for the three and nine months ended September 30, 2014 in the accompanying consolidated and combined statements of operations. Additionally, the Company incurred $3.9 million of bridge loan commitment and structuring fees, which are included in deferred costs and other assets as of September 30, 2014 in the accompanying consolidated and combined balance sheets. Other transaction costs are expected to be incurred in the fourth quarter of 2014 and in 2015 in connection with the closing of the Merger.

A putative class action lawsuit challenging the proposed Merger transactions has been filed in Maryland state court. The action was filed on October 2, 2014 and is captioned *Zucker v. Glimcher Realty Trust* et al., 24-C-14-005675 (Circ. Ct. Baltimore City). The *Zucker* complaint alleges that the trustees of Glimcher breached their fiduciary duties to Glimcher shareholders by agreeing to sell Glimcher for inadequate consideration and agreeing to improper deal protection terms in the merger agreement. In addition, the lawsuit alleges that Glimcher, WPG and certain of their affiliates aided and abetted these purported breaches of fiduciary duty. The *Zucker* complaint further alleges that the trustees of Glimcher were incentivized to enter into the merger agreement due to their ownership of large amounts of restricted stock and/or stock options and that Mr. Glimcher would be employed by the surviving entity and that he, in addition to another trustee of Glimcher, would join the board of the surviving entity. The lawsuit seeks, among other things, an injunction barring the merger. On October 23, 2014, a second putative class action lawsuit challenging the merger was filed in Maryland state court. The action is captioned *Motsch v. Glimcher Realty Trust* et al., 24-C-14-006011 (Circ. Ct. Baltimore City). The *Motsch* complaint alleges breach of fiduciary duty claims against the Glimcher trustees and aiding and abetting claims against Glimcher, WPG and certain of their affiliates substantially similar to those asserted in the *Zucker* complaint. The *Motsch* complaint also asserts a derivative claim for breach of fiduciary duty against the Glimcher trustees. The defendants intend to vigorously defend the lawsuits.

2. Basis of Presentation and Principles of Consolidation and Combination

The accompanying consolidated and combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated balance sheet as of September 30, 2014 includes the accounts of the Company and WPG L.P., as well as

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

2. Basis of Presentation and Principles of Consolidation and Combination (Continued)

their wholly-owned subsidiaries. The accompanying consolidated and combined statements of operations include the consolidated accounts of the Company and the combined accounts of SPG Businesses. Accordingly, the results presented for the periods ended September 30, 2014 reflect the aggregate operations and changes in cash flows and equity of the SPG Businesses on a carve-out basis for the period from January 1, 2014 through May 27, 2014 and of the Company on a consolidated basis subsequent to May 27, 2014. The accompanying financial statements for the periods prior to the separation are prepared on a carve-out basis from the consolidated financial statements of SPG using the historical results of operations and bases of the assets and liabilities of the transferred businesses and including allocations from SPG. All intercompany transactions have been eliminated in consolidation and combination. Due to the seasonal nature of certain operational activities, the results for the interim period ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

These consolidated and combined 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 and combined 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 and combined unaudited financial statements should be read in conjunction with the Company's revised historical audited combined financial statements and related notes included as Annex F to the Form S-4. For accounting and reporting purposes, the historical financial statements of WPG have been restated to include the operating results of the SPG Businesses as if the SPG Businesses had been a part of WPG for all periods presented. The historical financial statements and supplemental schedule of the SPG Businesses have been renamed as WPG. Equity and income have been adjusted retroactively to reflect WPG's ownership interest and the noncontrolling interest holders' interest in the SPG Businesses as of the separation date as if such interests were held for all periods presented in the financial statements. WPG's earnings per common share have been presented for all historical periods as if the number of common shares and units issued in connection with the separation were outstanding during each of the periods presented.

For periods presented prior to the separation, our historical combined financial results reflect charges for certain SPG corporate costs and we believe such charges are reasonable; however, such results do not necessarily reflect what our expenses would have been had we been operating as a separate stand-alone public company. These charges are further discussed in Note 8. Costs of the services that were charged to us were based on either actual costs incurred or a proportion of costs estimated to be applicable to us. The historical combined financial information presented may therefore not be indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone public company during the periods presented prior to the separation or of our future performance as an independent, stand-alone company. For joint venture or mortgaged properties, SPG has a standard management agreement for management, leasing and development activities provided to the properties. Management fees were based upon a percentage of revenues. For any wholly owned property that does not have a management agreement, SPG allocated the proportion of the underlying costs of management, leasing and development, in a manner that is materially consistent with the percentage of

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

2. Basis of Presentation and Principles of Consolidation and Combination (Continued)

revenue-based management fees and/or upon the actual volume of leasing and development activity occurring at the property.

In connection with the separation, we incurred $39.9 million of expenses, including investment banking, legal, accounting, tax and other professional fees, which are included in transaction and related costs for the nine months ended September 30, 2014 in the accompanying consolidated and combined statements of operations.

These consolidated and combined 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 partner or owner and the inability of any other partner or owner to replace us.

We also consolidate a variable interest entity, or 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 2014 in previous conclusions about whether an entity qualifies as a VIE or whether we are the primary beneficiary of any previously identified VIE. During 2014, 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 partnerships and joint ventures, at equity in the consolidated and combined 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 September 30, 2014, our assets consisted of interests in 96 shopping centers. The consolidated and combined financial statements as of that date reflect the consolidation of 89 wholly-owned properties and five 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 two properties, or the joint venture properties, using the equity method of accounting, as we have determined that we have significant influence over their operations. We manage the day-to-day operations of the joint venture properties, but

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

2. Basis of Presentation and Principles of Consolidation and Combination (Continued)

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 us 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. Our weighted average ownership interest in WPG L.P. was 82.9% and 83.1% for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, our ownership interest in WPG L.P. was 82.5% and 83.1%, 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

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Cash equivalents generally consist of commercial paper, bankers' acceptances, repurchase agreements, and money market deposits or securities. Financial instruments that potentially subject us to concentrations of credit risk include our cash and cash equivalents and our tenant receivables. We place our cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of FDIC and SIPC insurance limits.

Investment Properties

We record investment properties at cost. Investment properties include costs of acquisitions; development, predevelopment, and construction (including allocable salaries and related benefits); tenant allowances and improvements; and interest and real estate taxes incurred during construction. We capitalize improvements and replacements from repair and maintenance when the repair and maintenance extends the useful life, increases capacity, or improves the efficiency of the asset. All other repair and maintenance items are expensed as incurred. We capitalize interest on projects during periods of construction until the projects are ready for their intended purpose based on interest rates in place during the construction period. We record depreciation on buildings and improvements utilizing the straight-line method over an estimated original useful life, which is generally 10 to 35 years. We review depreciable lives of investment properties periodically and we make adjustments when necessary to reflect a shorter economic life. We amortize tenant allowances and tenant improvements utilizing the straight-line method over the term of the related lease or occupancy term of the tenant, if shorter. We record depreciation on equipment and fixtures utilizing the straight-line method over seven to ten years.

We review investment properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of investment properties may not be recoverable. These circumstances include, but are not limited to, declines in a property's cash flows, ending occupancy or declines in tenant sales. We measure any impairment of investment property when the estimated undiscounted operating income before depreciation and amortization plus its residual value is less than the carrying value of the property. To the extent impairment has occurred, we charge to income the excess of

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

carrying value of the property over its estimated fair value. We estimate fair value using unobservable data such as operating income, estimated capitalization rates, or multiples, leasing prospects and local market information. We may decide to sell properties that are held for use and the sale prices of these properties may differ from their carrying values. We also review our investments, including investments in unconsolidated entities, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. We will record an impairment charge if we determine that a decline in the fair value of the investments in unconsolidated entities is other-than-temporary. Changes in economic and operating conditions that occur subsequent to our review of recoverability of investment property and other investments in unconsolidated entities could impact the assumptions used in that assessment and could result in future charges to earnings if assumptions regarding those investments differ from actual results.

Investments in Unconsolidated Entities

Joint ventures are common in the real estate industry. We use joint ventures to finance properties, develop new properties, and diversify our risk in a particular property or portfolio of properties. We held unconsolidated joint venture ownership interests in two properties as of September 30, 2014 and 11 properties as of December 31, 2013.

Certain of our joint venture properties are subject to various rights of first refusal, buy-sell provisions, put and call rights, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. We and our partners in these joint ventures may initiate these provisions (subject to any applicable lock up or similar restrictions), which may result in either the sale of our interest or the use of available cash or borrowings to acquire the joint venture interest from our partner.

Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

Note 5 includes a discussion of the fair value of debt measured using Level 2 inputs. Notes 3 and 4 include a discussion of the fair values recorded in purchase accounting, using Level 2 and Level 3 inputs. Level 3 inputs to our purchase accounting analyses include our estimations of net operating results of the property, capitalization rates and discount rates.

Purchase Accounting Allocation

We allocate the purchase price of acquisitions and any excess investment in unconsolidated entities to the various components of the acquisition based upon the fair value of each component which may be

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

derived from various observable or unobservable inputs and assumptions. Also, we may utilize third party valuation specialists. These components typically include buildings, land and intangibles related to in-place leases and we estimate:

- the fair value of land and related improvements and buildings on an as-if-vacant basis,
- the market value of in-place leases based upon our best estimate of current market rents and amortize the resulting market rent adjustment into revenues,
- the value of costs to obtain tenants, including tenant allowances and improvements and leasing commissions, and
- the value of revenue and recovery of costs foregone during a reasonable lease-up period, as if the space was vacant.

Amounts allocated to building are depreciated over the estimated remaining life of the acquired building or related improvements. We amortize amounts allocated to tenant improvements, in-place lease assets and other lease-related intangibles over the remaining life of the underlying leases. We also estimate the value of other acquired intangible assets, if any, which are amortized over the remaining life of the underlying related intangibles.

Use of Estimates

We prepared the accompanying consolidated and combined financial statements in accordance with GAAP. GAAP 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.

Segment Disclosure

Our primary business is the ownership, development and management of retail real estate. We have aggregated our operations, including malls and strip centers, 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

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU No. 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014, but can be early-adopted. ASU 2014-08 also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. We early adopted ASU No. 2014-08 and will apply the revised definition to all disposals on a prospective basis.

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 revises 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. ASU No. 2014-09 is effective for annual reporting periods beginning after December 31, 2016 and early adoption is not permitted. An entity has the option to apply the provisions of ASU No. 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. We are currently evaluating the impact the adoption of ASU No. 2014-09 will have on our financial statements and related disclosures.

4. Real Estate Acquisitions and Dispositions

On July 17, 2014, we sold Highland Lakes Center, a wholly owned shopping center in Orlando, FL, for net proceeds of $20.5 million, resulting in a gain of approximately $9.0 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 23, 2014, we sold New Castle Plaza, a wholly owned shopping center in New Castle, Indiana, for net proceeds of $4.4 million, resulting in a gain of approximately $2.4 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 20, 2014, we acquired our partner's 50 percent interest in Clay Terrace, a 577,000 square foot lifestyle center located in Carmel, Indiana for approximately $22.9 million, paid by issuing 1,173,678 units of WPG L.P. The center is anchored by Dick's Sporting Goods, DSW and Whole Foods and includes several national and local retailers as well as a variety of dining options. Also included in the transaction is land available for development. The property was previously accounted for under the equity method, but is now consolidated as it is wholly owned post-acquisition. The consolidation of this previously unconsolidated property resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $46.6 million which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 18, 2014, we acquired our partner's interest in a portfolio of seven open-air shopping centers, consisting of four centers located in Florida, and one each in Indiana, Connecticut and Virginia, for approximately $162.0 million. The portfolio of properties totals over 2.1 million square feet. Also included in this transaction is land valued at approximately $4.0 million. Previously, we held between 32 percent to 42 percent legal ownership interests in the properties, but received substantially less economic benefit due to the partner's preferred capital allocation. The properties were previously accounted for under the equity method, but are now consolidated as four properties are wholly owned and three properties are approximately 88.2 percent owned post-acquisition. The consolidation of these previously unconsolidated properties resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $42.3 million which is included in gain upon acquisition of controlling interest and on sale of interests in properties in the accompanying consolidated and combined statements of operations. The source of funding for the acquisition was a borrowing under the Revolver (see Note 5).

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

4. Real Estate Acquisitions and Dispositions (Continued)

We reflected the assets and liabilities of the above acquisition properties at the estimated fair value on the respective acquisition dates. The following table summarizes the purchase price allocation, which has been further refined as of September 30, 2014; however, it remains preliminary and subject to revision within the measurement period, not to exceed one year from the date of acquisition:

Investment properties	$	413,548
Other assets		67,870
Debt		(206,473)
Other liabilities		(26,584)
Net assets acquired		248,361
Noncontrolling interest		(1,032)
Prior net cash distributions and losses		26,235
Gain on pre-existing interest		(88,843)
Fair value of total consideration transferred		184,721
Less: Units issued		(22,464)
Less: Cash acquired		(7,887)
Net cash paid for acquisitions	$	154,370

On February 28, 2014, SPG disposed of its interest in one unconsolidated shopping center and recorded a gain of approximately $0.2 million, which is included in gain upon acquisition of controlling interest and on sale of interests in properties in the consolidated and combined statements of operations. This property is part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG on May 28, 2014.

On January 10, 2014, SPG acquired one of its partner's remaining interests in three properties that were contributed to WPG. The consideration paid for the partner's remaining interests in these three properties was approximately $4.6 million. Two of these properties were previously consolidated and are now wholly owned. The remaining property is accounted for under the equity method.

On February 21, 2013, SPG increased its economic interest in three unconsolidated shopping centers and subsequently disposed of its interests in those properties. The aggregate gain recognized on this transaction was approximately $14.2 million and is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations. These properties were part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG on May 28, 2014.

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5. Indebtedness

Mortgage Debt

Total mortgage indebtedness was $1.5 billion and $918.6 million at September 30, 2014 and December 31, 2013, respectively, as follows:

	September 30, 2014	December 31, 2013
Face amount of mortgage loans	**$ 1,497,868**	$ 917,532
Premiums, net	**3,698**	1,082
Carrying value of mortgage loans	**$ 1,501,566**	$ 918,614

On June 20, 2014, resulting from our acquisition of the controlling interest in Clay Terrace (see Note 4), we assumed an additional mortgage with a fair value of $117.5 million.

On June 19, 2014, we closed on an extension of the 5.84% fixed rate mortgage on Chesapeake Square with unpaid principal balance of $64.7 million and original maturity date of August 1, 2014. The new maturity date is February 1, 2017, with a one-year extension option subject to certain requirements.

On June 18, 2014, resulting from our acquisition of the controlling interest in a portfolio of seven open-air shopping centers (see Note 4), we assumed additional mortgages on four properties with a fair value of $88.9 million.

On June 5, 2014, we repaid the mortgage on Sunland Park Mall in the amount of $30.7 million (including prepayment penalty of $2.9 million, which is recorded in interest expense for the nine months ended September 30, 2014 in the accompanying consolidated and combined statements of operations. The loan was due to mature on January 1, 2026. The repayment was funded through a borrowing on our credit facility (see below).

On February 20, 2014, West Ridge Mall refinanced its $64.6 million, 5.89% fixed rate mortgage maturing July 1, 2014 with a $54.0 million, 4.84% fixed rate mortgage that matures March 6, 2024. The new debt encumbers both West Ridge Mall and West Ridge Plaza.

On February 11, 2014, Brunswick Square refinanced its $76.5 million, 5.65% fixed rate mortgage maturing August 11, 2014 with a $77.0 million, 4.796% fixed rate mortgage that matures March 1, 2024.

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

5. Indebtedness (Continued)

In addition, prior to May 28, 2014, mortgages were obtained on previously unencumbered properties as follows (in millions):

Property	Amount	Interest Rate	Type	Maturity
Muncie Mall	$ 37.0	4.19%	Fixed	4/1/2021
Oak Court Mall	40.0	4.76%	Fixed	4/1/2021
Lincolnwood Town Center	53.0	4.26%	Fixed	4/1/2021
Cottonwood Mall	105.0	4.82%	Fixed	4/6/2024
Westminster Mall	85.0	4.65%	Fixed	4/1/2024
Charlottesville Fashion Square	50.0	4.54%	Fixed	4/1/2024
Town Center at Aurora	55.0	4.19%	Fixed	4/1/2019
Total(1)	$ 425.0			

(1) Proceeds were retained by SPG as part of the separation (see Note 6).

Unsecured Debt

On May 15, 2014, we closed on a senior unsecured revolving credit facility, or Revolver, and a senior unsecured term loan, or Term Loan (collectively referred to as the "Facility"). The Revolver provides borrowings on a revolving basis up to $900 million, bears interest at one-month LIBOR plus 1.05%, and will initially mature on May 30, 2018, subject to two, 6-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee. The Term Loan provides borrowings in an aggregate principal amount up to $500 million, bears interest at one-month LIBOR plus 1.15%, and will initially mature on May 30, 2016, subject to three, 12-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee.

In connection with the formation of WPG, and as contemplated in the Information Statement dated May 16, 2014 filed as Exhibit 99.1 to our current report on Form 8-K filed on May 20, 2014, we incurred $670.8 million of additional indebtedness under the Facility concurrent with the May 28, 2014 distribution or shortly thereafter. The proceeds of the borrowings under the Facility were used as follows: (i) $585.0 million was retained by SPG as part of the formation transactions, (ii) $30.7 million was used for the repayment of the Sunland Park Mall mortgage, (iii) $39.9 million was retained to cover transaction and related costs, (iv) $11.4 million was repaid to SPG for deferred loan financing costs and (v) the remaining $3.8 million was retained on hand for other corporate and working capital purposes. On June 17, 2014, we incurred an additional $170.0 million of indebtedness under the Facility, the proceeds of which were primarily used for the acquisition of our partner's interest in a portfolio of seven open-air shopping centers (see Note 4).

At September 30, 2014, our unsecured debt consisted of $340.8 million outstanding under the Revolver and $500.0 million outstanding under the Term Loan. On September 30, 2014, we had an aggregate available borrowing capacity of $559.2 million under the Facility.

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Washington Prime Group Inc.

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5. Indebtedness (Continued)

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 September 30, 2014, we were in compliance with all covenants of our unsecured debt.

At September 30, 2014, certain of our consolidated subsidiaries were the borrowers under 31 non-recourse mortgage loans secured by mortgages encumbering 36 properties, including four separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of 10 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. 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. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. At September 30, 2014, the applicable borrowers under these 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.

Fair Value of Debt

The carrying values of our variable-rate unsecured loans approximate their fair values. We estimate the fair values of fixed-rate mortgages using cash flows discounted at current borrowing rates. The book value of our fixed-rate mortgages was $1.5 billion and $918.6 million as of September 30, 2014 and December 31, 2013, respectively. The fair values of these financial instruments and the related discount rate assumptions as of September 30, 2014 and December 31, 2013 are summarized as follows:

	September 30, 2014	December 31, 2013
Fair value of fixed-rate mortgages	**$ 1,568,426**	$ 981,631
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	**3.29%**	3.06%

6. Equity

Prior to the May 28, 2014 separation, the financial statements were carved-out from SPG's books and records; thus, pre-separation ownership was solely that of SPG and noncontrolling interests based on their

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

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6. Equity (Continued)

respective ownership interest in SPG L.P. on the date of separation (see Notes 1 and 2 for more information). Upon becoming a separate company on May 28, 2014, WPG's ownership is now classified under the typical stockholders' equity classifications of common stock, capital in excess of par value and retained earnings. Related to the separation, 155,162,597 shares of WPG common stock and 31,575,487 units of WPG L.P.'s limited partnership interest were issued to shareholders of SPG and unit holders of SPG L.P., respectively.

Changes in Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of consolidated and combined equity:

	Common Stock	Capital in Excess of Par Value	SPG Equity	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2013	**$**	**$**	**$ 1,565,169**	**$**	**$ 1,565,169**	**$ 319,356**	**$ 1,884,525**
Issuance of shares in connection with separation	16	711,265	(711,281)				
Issuance of limited partner units						22,464	22,464
Noncontrolling interest in property (see Note 4)						1,032	1,032
Equity-based compensation						1,266	1,266
Adjustments to noncontrolling interests		10,875			10,875	(10,875)	
Distributions to SPG, net(1)			(878,209)		(878,209)	(181,978)	(1,060,187)
Distributions on common shares/units ($0.25 per common share/unit)				(38,797)	(38,797)	(8,258)	(47,055)
Purchase of noncontrolling interest						(845)	(845)
Net income			24,321	112,073	136,394	28,210	164,604
Balance, September 30, 2014	**$ 16**	**$ 722,140**	**$**	**$ 73,276**	**$ 795,432**	**$ 170,372**	**$ 965,804**

(1) Amount includes approximately $1.0 billion of proceeds on new indebtedness retained by SPG L.P. as part of the separation (see Note 5).

Stock Based Compensation

On May 28, 2014, the Company's Board of Directors 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 an 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. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards in WPG, or long term incentive plan ("LTIP") units or performance

units in WPG, L.P. The Plan terminates on May 28, 2024.

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

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6. Equity (Continued)

Other Compensation Arrangements

On June 24, 2014, Mark Ordan, our Chief Executive Officer, was awarded 153,610 LTIP units under the Plan, pursuant to the employment agreement between the Company and Mr. Ordan, dated as of February 15, 2014 (the "Employment Agreement"). The LTIP units were granted as "Inducement LTIP Units" under the terms of the Employment Agreement. Subject to certain exceptions, 25% of the Inducement LTIP Units will become vested on each of the first four anniversaries of the effective date of the Employment Agreement based on continued employment. The grant date fair value of the award of $3.0 million is being recognized as expense over the applicable vesting period.

Mr. Ordan is also entitled to receive special performance LTIP units ("Special PP Units") under the terms of the employment agreement that vest based upon the Company's achievement of certain shareholder return and outperformance of the Company's stock relative to certain indices. These Special PP Units were valued by an external specialist at a discount to the stock price on the date of the separation in order to allow for the possibility that the stock performance conditions will not be met. If the performance criteria have been met, a maximum amount, based on the closing price for the 20 consecutive trading days commencing on the separation date, of $2.0 million ("First Special PP"), $1.5 million ("Second Special PP") and $1.5 million ("Third Special PP") may become earned on December 31, 2015, 2016 and 2017, respectively. The earned First and Second Special Units will vest on May 28, 2017 and the earned Third Special PP Units will be vested immediately upon being earned, subject to continued employment. The grant date fair value of the award of $2.3 million is being recognized as expense over the applicable vesting periods of the Special PP Units.

Additionally, the employment agreement provides that Mr. Ordan will receive an annual grant of LTIP units with respect to each fiscal year during the term of the employment agreement, to be made no later than promptly following the completion of our audited financial statements for such fiscal year and on terms no less favorable than the annual LTIP unit awards made to our other senior executives (the "Annual LTIP Units"). The number of Annual LTIP Units granted in respect of a fiscal year will be determined based on our achievement of total shareholder return ("TSR") goals with respect to such fiscal year by dividing a cash amount, not greater than $0.75 million, by the average closing price of our common stock for the final 15 trading days of such fiscal year, with Annual LTIP Units awarded in respect of fiscal year 2014 pro-rated based on the number of days from March 15, 2014 to December 31, 2014. Annual LTIP Units vest at a rate of one-third on each of the first three anniversaries of the first day of the fiscal year following the fiscal year in respect of which such Annual LTIP Units were granted, subject to Mr. Ordan's continued employment on each such vesting date.

On August 25, 2014, the Company awarded 130,000 time-vested LTIP Units ("Officer Inducement LTIP Units") to the executive officers of the Company under the Plan, pursuant to LTIP Unit Award Agreements between the Company and each of the officers. The Officer Inducement LTIP Units vest 25% on each of the first four anniversaries of the award date, subject to each respective officer's continued employment on each such vesting date.

On August 25, 2014, the Company awarded LTIP units subject to performance conditions described below ("Officer Performance LTIP Units") to each of the executive officers of the Company in the maximum total amount of 195,000 units. The Officer Performance LTIP Units relate to the following

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6. Equity (Continued)

performance periods: from May 28, 2014 to (i) December 31, 2015, (ii) December 31, 2016, and (iii) December 31, 2017, in each case, subject to the officer's continued employment through the applicable vesting date. The vesting date is May 28, 2017 for the performance periods ending in 2015 and 2016 and is the applicable grant date for the performance period ending in 2017. The Performance LTIP Units are granted promptly (and in any event within 15 days) of the end of each applicable performance period. In each case, the maximum number of Officer Performance LTIP Units granted for each of the performance periods is one-third of the maximum total amount described above. The number of Officer Performance LTIP Units granted in respect of each performance period will be determined as a percentage of the maximum, based on the Company's achievement of absolute and relative (versus the MSCI REIT Index) total shareholder return ("TSR") goals, with 40% of the Officer Performance LTIP Units available for grant with respect to each performance period granted based on achievement of absolute TSR goals, and 60% of the Officer Performance LTIP Units available for grant with respect to each performance period granted based on achievement of relative TSR goals.

We recorded compensation expense related to all LTIP units of approximately $1.2 million and $1.3 million for the three and nine months ended September 30, 2014, respectively, which expense is included in general and administrative expense in the accompanying consolidated and combined statements of operations.

Board of Directors Compensation

On August 4, 2014, the Board of Directors approved annual compensation for the period of May 28, 2014 through May 28, 2015 for the independent members of the Board of Directors of the Company. Each independent director's annual compensation shall total $0.2 million based on a combination of cash and restricted stock units granted under the Plan.

Dividends

On September 15, 2014, the Company paid a quarterly cash dividend of $0.25 per common share/unit. On August 4, 2014, the Company's Board of Directors had declared the dividend to shareholders and unitholders of record on August 27, 2014, with an ex-dividend date of August 25, 2014.

7. 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.

See "Proposed Merger" section of Note 1 for a discussion of Merger-related litigation.

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7. Commitments and Contingencies (Continued)

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 mall 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 and combined revenues.

8. Related Party Transactions

As described in Notes 1 and 2, the accompanying consolidated and combined financial statements include the operations of SPG Businesses as carved-out from the financial statements of SPG for the periods prior to the separation and the operations of the properties under the Company's ownership subsequent to the separation. Transactions between the properties have been eliminated in the consolidated and combined presentation.

For periods prior to the separation, a fee for certain centralized SPG costs for activities such as common costs for management and other services, national advertising and promotion programs, consulting, accounting, legal, marketing and management information systems has been charged to the properties in the combined financial statements. In addition, certain commercial general liability and property damage insurance is provided to the properties by an indirect subsidiary of SPG. In connection with the separation, WPG and SPG entered into property management agreements under which SPG manages WPG's mall properties. Additionally, WPG and SPG entered into a transition services agreement pursuant to which SPG provides to WPG, on an interim, transitional basis after the separation date, various services including administrative support for the strip centers, information technology, accounts payable and other financial functions, as well as engineering support, quality assurance support and other administrative services. Under the transition services agreement, SPG charges WPG, based upon SPG's allocation of certain shared costs such as insurance premiums, advertising and promotional programs, leasing and development fees. Amounts charged to expense for property management and common costs, services, and other as well as insurance premiums are included in property operating costs in the consolidated and combined statements of operations. Additionally, leasing and development fees charged by SPG are capitalized by the property.

Charges for each of the periods presented for properties which are consolidated and combined are as included below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Property management and common costs, services and other	**$ 5,515**	$ 3,786	**$ 15,325**	$ 12,764
Insurance premiums	**2,351**	2,274	**6,790**	6,821
Advertising and promotional programs	**196**	217	**639**	631
Capitalized leasing and development fees	**1,176**	264	**7,341**	1,328

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8. Related Party Transactions (Continued)

Charges for each of the periods presented for unconsolidated properties are as included below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Property management costs, services and other	**$ 241**	$ 969	**$ 2,010**	$ 2,905
Insurance premiums	**14**	59	**123**	175
Advertising and promotional programs	**10**	15	**36**	46
Capitalized leasing and development fees	**8**	26	**162**	223

At September 30, 2014 and December 31, 2013, $3,473 and $4,959, respectively, were payable to SPG and its affiliates and are included in accounts payable, accrued expenses, intangibles, and deferred revenues in the accompanying consolidated and combined balance sheets.

9. Earnings Per Share

We determine basic earnings per 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 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. As described in Note 1, the common shares and units outstanding at the separation date are reflected as outstanding for all periods prior to the separation. The following table sets forth the computation of our basic and diluted earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net income attributable to common stockholders basic and diluted	**$ 32,201**	$ 32,234	**$ 136,394**	$ 112,714
Weighted average shares outstanding basic and diluted	**155,162,597**	155,162,597	**155,162,597**	155,162,597
Earnings per common share, basic and diluted				
Net income attributable to common stockholders	**$ 0.21**	$ 0.21	**$ 0.88**	$ 0.73

For the three and nine months ended September 30, 2014 and 2013, potentially dilutive securities include units that are exchangeable for common stock and LTIP units granted under the Plan that are convertible into units and exchangeable for common stock. No securities had a material dilutive effect for the three and nine months ended September 30, 2014 and 2013. We accrue dividends when they are declared.

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Washington Prime Group Inc.

Condensed Notes to Unaudited Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

10. Subsequent Events

On October 10, 2014, the Company restructured the $94.0 million mortgage on Rushmore Mall, splitting the principal balance into an "A Note" of $58.0 million and a "B Note" of $36.0 million. The maturity date of both notes was extended from June 1, 2016 to February 1, 2019 and the interest rate of both notes remains at 5.79%. Interest accrues on both notes, with payment due currently on the A Note and at maturity on the B Note. Under a sale or refinance, amounts of principal and interest due on the B Note may be forgiven. At closing, the Company contributed $11.6 million to be applied towards closing costs and lender-held reserves.

On October 29, 2014, the Company repaid the $15.3 million mortgage on Lake View Plaza and $2.2 million mortgage on DeKalb Plaza through a $18.0 million borrowing under the Revolver.

On November 4, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.25 per common share/unit, payable on December 15, 2014, to shareholders and unitholders of record on November 26, 2014, with an ex-dividend date of November 25, 2014.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the combined financial statements and notes thereto included in this report.

Overview Basis of Presentation

Washington Prime Group Inc. ("WPG" or the "Company") is an Indiana corporation that was created to hold the strip center business and smaller enclosed malls of Simon Property Group, Inc. ("SPG") and its subsidiaries. Prior to the separation from SPG which was completed on May 28, 2014, WPG was a wholly owned subsidiary of SPG. Prior to or concurrent with the separation, SPG engaged in certain formation transactions that were designed to consolidate the ownership of its interests in 98 properties ("SPG Businesses") and distribute such interests to WPG and its operating partnership, Washington Prime Group, L.P. ("WPG L.P."). Pursuant to the separation agreement, SPG distributed 100% of the common shares of WPG on a pro rata basis to SPG's shareholders as of the record date.

Unless the context otherwise requires, references to "we", "us" and "our" refer to Washington Prime Group Inc. after giving effect to the transfer of assets and liabilities from SPG as well as to the SPG Businesses prior to the date of the completion of the separation. Before the completion of the separation, SPG Businesses were operated as subsidiaries of SPG, which operates as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. WPG operates as a REIT subsequent to the separation and distribution. REITs will generally not be liable for federal corporate income taxes as long as they continue to distribute not less than 100% of their taxable income and satisfy certain other requirements.

At the time of the separation and distribution, WPG owned a percentage of the outstanding units of partnership interest, or units, of WPG L.P. that is approximately equal to the percentage of outstanding units of partnership interest of Simon Property Group, L.P. ("SPG L.P.") owned by SPG, with the remaining units of WPG L.P. being owned by the limited partners who were also limited partners of SPG L.P. as of the May 16, 2014 record date. The units in WPG L.P. are convertible by their holders for WPG common shares on a one-for-one basis, or, at WPG's option, into cash.

Before the separation, we had not conducted any business as a separate company and had no material assets or liabilities. The operations of the business transferred to us by SPG on the spin-off date are presented as if the transferred business was our business for all historical periods described and at the carrying value of such assets and liabilities reflected in SPG's books and records. Additionally, the financial statements reflect the common shares and units outstanding at the separation date as outstanding for all periods prior to the separation.

The consolidated and combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated balance sheet as of September 30, 2014 includes the accounts of the Company and WPG L.P., as well as their wholly-owned subsidiaries. The consolidated and combined statements of operations include the consolidated accounts of the Company and the combined accounts of SPG Businesses. Accordingly, the results presented for the periods ended September 30, 2014 reflect the aggregate operations and changes in cash flows and equity on a carve-out basis of the SPG Businesses for the period from January 1, 2014 through May 27, 2014 and on a consolidated basis of the Company subsequent to May 27, 2014. The financial statements for the periods prior to the separation are prepared on a carve-out basis from the consolidated financial statements of SPG using the historical results of operations and bases of the assets and liabilities of the transferred businesses and including allocations from SPG. All intercompany transactions have been eliminated in consolidation and combination. In the opinion of management, the consolidated and combined 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

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interim periods presented. The Company believes that the disclosures made are adequate to prevent the information presented from being misleading.

The combined financial statements prior to the separation include the allocation of certain assets and liabilities that have historically been held at the SPG corporate level but which are specifically identifiable or allocable to SPG Businesses. Cash and cash equivalents, short-term investments and restricted funds held by SPG were not allocated to SPG Businesses unless the cash or investments were held by an entity that was transferred to WPG. Long-term unsecured debt and short-term borrowings were not allocated to SPG Businesses as none of the debt recorded by SPG is directly attributable to or guaranteed by SPG Businesses. All intra-company transactions and accounts have been eliminated. The total net effect of the settlement of these intercompany transactions is reflected in the consolidated and combined statements of cash flow as a financing activity and in the consolidated and combined balance sheets as SPG equity in SPG Businesses for periods prior to the separation.

The combined historical financial statements prior to the separation do not necessarily include all of the expenses that would have been incurred had we been operating as a separate, stand-alone entity and may not necessarily reflect our results of operations, financial position and cash flows had we been a stand-alone company during the periods presented prior to the separation. Our combined historical financial statements include charges related to certain SPG corporate functions, including senior management, property management, legal, leasing, development, marketing, human resources, finance, public reporting, tax and information technology. These expenses have been charged based on direct usage or benefit where identifiable, with the remainder charged on a pro rata basis of revenues, headcount, square footage, number of transactions or other measures. We consider the expense allocation methodology and results to be reasonable for all periods presented. However, the charges may not be indicative of the actual expenses that would have been incurred had WPG operated as an independent, publicly-traded company for the periods presented prior to the separation.

WPG now incurs additional costs associated with being an independent, publicly traded company, primarily from newly established or expanded corporate functions. We believe that cash flow from operations will be sufficient to fund these additional corporate expenses.

Prior to the separation, WPG entered into agreements with SPG under which SPG provides various services to us, including accounting, asset management, development, human resources, information technology, leasing, legal, marketing, public reporting and tax. The charges for the services are based on an hourly or per transaction fee arrangement and pass-through of out-of-pocket costs.

In connection with the separation, we incurred $39.9 million of expenses, including investment banking, legal, accounting, tax and other professional fees, which are included in transaction and related costs for the nine months ended September 30, 2014 in the consolidated and combined statements of operations.

At the time of the separation, our assets consisted of interests in 98 shopping centers. In addition to the above properties, the combined historical financial statements include interests in three shopping centers held within a joint venture portfolio of properties which were sold during the first quarter of 2013 as well as one additional shopping center which was sold by that same joint venture on February 28, 2014. As of September 30, 2014, our assets consisted of interests in 96 shopping centers.

Proposed Merger

On September 16, 2014, the Company entered into a definitive agreement with Glimcher Realty Trust ("Glimcher") under which it will acquire Glimcher in a stock and cash transaction valued at $14.20 per Glimcher common share (the "Merger"). Under the terms of the Merger, which has been unanimously approved by the Board of Directors of the Company and the Board of Trustees of Glimcher, Glimcher shareholders will receive, for each Glimcher share, $10.40 in cash and 0.1989 of a share of the Company's

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common stock at closing. The total transaction value, including the assumption of debt, is approximately $4.3 billion assuming the stock portion of the consideration is valued at $3.80 per Glimcher common share, based on the ten day volume weighted average price of the Company's common stock prior to the date of the Merger agreement. We estimate that approximately 28.8 million shares of WPG common stock will be issued to Glimcher shareholders in the Merger. Additionally included in consideration are operating partnership units and preferred stock as noted below. The new company, to be named WP Glimcher, will be comprised of approximately 68 million square feet of gross leasable area (compared to approximately 53 million square feet for the Company as of September 30, 2014) and will have a combined portfolio of 119 properties.

As described in our Registration Statement on Form S-4 filed on October 28, 2014 pertaining to the Merger (the "Form S-4"), in the Merger, the preferred stock of Glimcher will be converted into preferred stock of WPG and each outstanding unit of Glimcher's operating partnership will be converted into 0.7431 of a unit of WPG LP. Further, each outstanding stock option in respect of Glimcher common stock will be converted into a WPG option, and certain other Glimcher equity awards will be assumed by WPG and converted into equity awards in respect of WPG common shares.

Concurrent with the execution of the Merger agreement, the Company entered into a definitive agreement with SPG under which SPG will acquire Jersey Gardens in Elizabeth, New Jersey, and University Park Village in Fort Worth, Texas, properties currently owned by Glimcher, for an aggregate cash purchase price of $1.09 billion, of which $424.0 million will be used to repay associated mortgage indebtedness. Completion of the sale of these properties to SPG will occur concurrent with the closing of the acquisition of Glimcher by WPG.

On September 16, 2014, in connection with the execution of the Merger agreement, WPG entered into a debt commitment letter, which was amended and restated on September 23, 2014 and October 6, 2014, pursuant to which the commitment parties agreed to provide an up to $1.25 billion senior unsecured bridge loan facility. The facility will mature on the date that is 364 days following the closing date of the Merger. The interest rate payable on amounts outstanding under the facility will be equal to three-month LIBOR plus an applicable margin based on WPG's credit rating, which increases on the 180th and 270th days following the consummation of the Merger. In addition, an increasing duration fee will be payable on the 180th and 270th days following the consummation of the Merger on the outstanding principal amount, if any, under the facility. The facility will not amortize and any amounts outstanding will be repaid in full on the maturity date. The facility is expected to contain events of default, representations and warranties and covenants that are substantially identical to those contained in WPG's existing credit agreement (subject to certain exceptions set forth in the debt commitment letter).

Completion of the Merger is subject to, among other things, approval by the holders of the Glimcher common shares. Assuming approval is obtained, the Merger transaction is expected to close in the first quarter of 2015. The cash portion of the Merger consideration is expected to be funded by the sale of the two properties to SPG, joint ventures with institutional partners, other assets sales, capital markets transactions, and/or draws under the $1.25 billion fully committed bridge facility. The Company can give no assurance that the Merger and related transactions will be completed in the above timeframe, if at all. During the third quarter of 2014, the Company incurred $2.5 million of fairness opinion fees related to the Merger, which are included in merger costs for the three and nine months ended September 30, 2014 in the consolidated and combined statements of operations. Additionally, the Company incurred $3.9 million of bridge loan commitment and structuring fees, which are included in deferred costs and other assets as of September 30, 2014 in the consolidated and combined balance sheets. Other transaction costs are expected to be incurred in the fourth quarter of 2014 and in 2015 in connection with the closing of the Merger.

A putative class action lawsuit challenging the proposed Merger transactions has been filed in Maryland state court. The action was filed on October 2, 2014 and is captioned *Zucker v. Glimcher Realty Trust* et al., 24-C-14-005675 (Circ. Ct. Baltimore City). The *Zucker* complaint alleges that the trustees of

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Glimcher breached their fiduciary duties to Glimcher shareholders by agreeing to sell Glimcher for inadequate consideration and agreeing to improper deal protection terms in the merger agreement. In addition, the lawsuit alleges that Glimcher, WPG and certain of their affiliates aided and abetted these purported breaches of fiduciary duty. The *Zucker* complaint further alleges that the trustees of Glimcher were incentivized to enter into the merger agreement due to their ownership of large amounts of restricted stock and/or stock options and that Mr. Glimcher would be employed by the surviving entity and that he, in addition to another trustee of Glimcher, would join the board of the surviving entity. The lawsuit seeks, among other things, an injunction barring the merger. On October 23, 2014, a second putative class action lawsuit challenging the merger was filed in Maryland state court. The action is captioned *Motsch v. Glimcher Realty Trust* et al., 24-C-14-006011 (Circ. Ct. Baltimore City). The *Motsch* complaint alleges breach of fiduciary duty claims against the Glimcher trustees and aiding and abetting claims against Glimcher, WPG and certain of their affiliates substantially similar to those asserted in the *Zucker* complaint. The *Motsch* complaint also asserts a derivative claim for breach of fiduciary duty against the Glimcher trustees. The defendants intend to vigorously defend the lawsuits.

Overview and Outlook

We derive our revenues primarily from retail tenant leases, including fixed minimum rent leases, percentage rent leases based on tenants' sales volumes and reimbursements from tenants for certain expenses. We seek to re-lease our spaces at higher rents and increase our occupancy rates, and to enhance the performance of our properties and increase our revenues by, among other things, adding anchors or big-boxes, 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. In addition, we believe that there are opportunities for us to acquire additional shopping centers that match our investment criteria.

We invest in real estate properties to maximize total financial return which includes both operating cash flows and capital appreciation. We seek growth in earnings, funds from operations, or FFO, and cash flows by enhancing the profitability and operation of our properties and investments.

We consider FFO, net operating income, or NOI, and comparable property NOI (NOI for properties owned and operating in both periods under comparison) to be key measures of operating performance that are not specifically defined by accounting principles generally accepted in the United States, or GAAP. We use these measures internally to evaluate the operating performance of our portfolio and provide a basis for comparison with other real estate companies. Reconciliations of these measures to the most comparable GAAP measure are included elsewhere in this report.

Portfolio Data

The portfolio data discussed in this overview includes key operating statistics including ending occupancy and average base minimum rent per square foot.

Core business fundamentals in the overall portfolio during the first nine months of 2014 improved compared to the first nine months of 2013. Ending occupancy for the shopping centers was 92.7% as of September 30, 2014, as compared to 92.2% as of September 30, 2013, an increase of 50 basis points. Average base minimum rent per square foot remained stable across the portfolio as the shopping centers saw an increase of 1.4%.

Our share of portfolio NOI grew by 4.6% for the first nine months in 2014 as compared to the first nine months in 2013. Comparable property NOI increased 1.6% for the portfolio, net of the approximate 165 basis point impact of increased costs associated with the harsh winter weather conditions in the first quarter of 2014.

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The following table sets forth key operating statistics for the combined portfolio of properties or interests in properties:

	September 30, 2014	September 30, 2013	%/Basis Points Change(1)
Ending Occupancy	**92.7%**	92.2%	**+50 bps**
Average Base Minimum Rent per Square Foot	**$ 19.07**	$ 18.80	**1.4%**

(1) Percentages may not recalculate due to rounding. Percentage and basis point changes are representative of the change from the comparable prior period.

Ending Occupancy Levels and Average Base Minimum Rent per Square Foot. Ending occupancy is the percentage of gross leasable area, or GLA, which is leased as of the last day of the reporting period. We include all company owned space except for mall anchors, mall majors, mall freestanding and mall outlots in the calculation of ending occupancy. Strip center GLA included in the calculation relates to all company owned space. Average base minimum rent per square foot is the average base minimum rent charge in effect for the reporting period for all tenants that would qualify to be included in ending occupancy.

Current Leasing Activities

During the nine months ended September 30, 2014, we signed 158 new leases and 441 renewal leases with a fixed minimum rent (excluding mall anchors and majors, new development, redevelopment, expansion, downsizing, and relocation) across the portfolio, comprising approximately 1.6 million square feet of which 1.5 million square feet related to consolidated properties. During the nine months ended September 30, 2013, we signed 213 new leases and 322 renewal leases, comprising approximately 1.6 million square feet of which 1.4 million related to consolidated properties. The average annual initial base minimum rent for new leases was $21.20 psf in the 2014 period and $18.65 psf in the 2013 period with an average tenant allowance on new leases of $27.06 psf and $22.43 psf, respectively.

Results of Operations

The following opening and closing related to redevelopments affected our results in the comparative periods:

During the second quarter of 2014, we commenced redevelopment activities at Jefferson Valley Mall, a 556,000 square foot shopping center located in the New York City area.

During the third quarter of 2013, we opened University Town Plaza, a 580,000 square foot shopping center located in Pensacola, Florida, after completion of the redevelopment.

The following acquisitions and dispositions affected our results in the comparative periods:

On July 17, 2014, we sold Highland Lakes Center, a wholly owned shopping center in Orlando, FL.

On June 23, 2014, we sold New Castle Plaza, a wholly owned shopping center in New Castle, Indiana.

On June 20, 2014, we acquired our partner's 50 percent interest in Clay Terrace, a 577,000 square foot lifestyle center located in Carmel, Indiana. The property was previously accounted for under the equity method, but is now consolidated as it is wholly owned post acquisition.

On June 18, 2014, we acquired our partner's interest in a portfolio of seven open-air shopping centers, consisting of four centers located in Florida, and one each in Indiana, Connecticut and Virginia. The properties were previously accounted for under the equity method, but are now

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consolidated as four properties are wholly owned and three properties are approximately 88.2 percent owned post acquisition.

In addition to the above, the following dispositions of interests in joint venture properties affected our income from unconsolidated entities in the comparative periods:

On February 28, 2014, SPG disposed of its interest in one unconsolidated shopping center held within a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG.

On February 21, 2013, SPG increased its economic interest in three unconsolidated shopping centers and subsequently disposed of its interests in those properties. These properties were part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG.

For the purposes of the following comparisons, the above transactions are referred to as the "property transactions." In the following discussions of our results of operations, "comparable" refers to properties we owned and operated throughout both of the periods under comparison.

Three Months Ended September 30, 2014 vs. Three Months Ended September 30, 2013

Minimum rents increased $9.0 million, of which the property transactions accounted for $8.1 million. Comparable rents increased $0.9 million, or 0.9%, primarily attributable to an increase in base minimum rents. Tenant reimbursements increased $3.3 million, due to a $2.7 million increase attributable to the property transactions and a $0.6 million increase in comparable properties primarily due to utility reimbursements and annual fixed contractual increases related to common area maintenance. Other income decreased $0.3 million primarily as a result of decreased miscellaneous income in 2014 versus 2013.

Total operating expenses increased $11.3 million, of which $4.4 million was attributable to general and administrative expenses associated with WPG operating as a separate, publicly-traded company and $2.5 million was attributable to costs associated with the Merger. Of the remaining increase, $6.3 million was attributable to the property transactions net of a $1.9 million decrease primarily attributable to decreased depreciation and amortization on assets becoming fully depreciated as well as slightly decreasing operating costs at the comparable properties.

Interest expense increased $9.4 million, of which $5.4 million was attributable to mortgages placed on seven previously unencumbered properties during 2014, $3.8 million was attributable to borrowings on the revolving credit facility and term loan and $1.3 million was attributable to the property transactions. These increases are partially offset by a $0.6 million decrease attributable to the repayment of the Sunland Park Mall mortgage in 2014 and a $0.5 million decrease primarily attributable to lower interest on the amortizing loan balances of the comparable properties.

The aggregate gain recognized on the property transactions during the 2014 period was $9.0 million from the sale of Highland Lakes Center.

Nine Months Ended September 30, 2014 vs. Nine Months Ended September 30, 2013

Minimum rents increased $15.5 million, of which the property transactions accounted for $10.1 million. Comparable rents increased $5.4 million, or 1.7%, primarily attributable to an increase in base minimum rents. Tenant reimbursements increased $6.5 million, due to a $3.8 million increase attributable to the property transactions and a $2.7 million increase in comparable properties primarily due to utility reimbursements and annual fixed contractual increases related to common area maintenance. Other income increased $0.7 million primarily as a result of increased land sales and lease settlements in 2014 versus 2013, partially offset by decreased miscellaneous income during 2014.

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Total operating expenses increased $61.5 million, of which $39.9 million was attributable to transaction costs related to the separation of WPG from SPG, $6.3 million was attributable to general and administrative expenses associated with WPG operating as a separate, publicly-traded company and $2.5 million was attributable to costs associated with the Merger. Of the remaining increase, $9.4 million was attributable to the property transactions and $3.4 million was primarily attributable to increased snow removal and utility costs due to the harsh winter.

Interest expense increased $18.6 million, of which $10.8 million was attributable to mortgages placed on seven previously unencumbered properties during 2014, $2.2 million was attributable to the prepayment penalty net of interest savings on the Sunland Park Mall mortgage, $5.1 million was attributable to borrowings on the revolving credit facility and term loan and $1.7 million was attributable to the property transactions. These increases are partially offset by a $1.2 million decrease primarily attributable to lower interest on the amortizing loan balances of the comparable properties.

The aggregate gain recognized on the property transactions during the 2014 period was $100.5 million, including $88.9 million from the acquisition of controlling interests in Clay Terrace and a portfolio of seven open-air shopping centers, $9.0 million from the sale of Highland Lakes Center, $2.4 million from the sale of New Castle Plaza and $0.2 million from the sale of our interest in one unconsolidated shopping center. The aggregate gain recognized on the property transactions during the 2013 period was $14.2 million from the increase in and subsequent sale of our interests in three unconsolidated shopping centers.

Liquidity and Capital Resources

Our primary uses of cash include payment of operating expenses, working capital, debt repayment, including principal and interest, reinvestment in properties, development and redevelopment of properties, tenant allowance and dividends. Our primary sources of cash are operating cash flow and borrowings under our debt arrangements including our senior unsecured revolving credit facility, or Revolver, and a senior unsecured term loan, or Term Loan (collectively referred to as the "Facility"), as further discussed below.

Because we own primarily long-lived income-producing assets, our financing strategy relies on long-term fixed rate mortgage debt as well as floating rate debt. At September 30, 2014, floating rate debt comprised 35.9% of our total consolidated debt. We will continue to monitor our borrowing mix to limit market risk. We derive most of our liquidity from leases that generate positive net cash flow from operations and distributions of capital from unconsolidated entities, the total of which was $200.1 million during the nine months ended September 30, 2014.

Our balance of cash and cash equivalents increased $95.0 million during 2014 to $120.8 million as of September 30, 2014. The increase was primarily due to operating cash flow from the properties, balances acquired in business combinations and proceeds from sale of assets. See "Cash Flows" below for more information.

On September 30, 2014, we had an aggregate available borrowing capacity of $559.2 million under the Facility, net of outstanding borrowings of $840.8 million. The weighted average interest rate on the Facility was 1.3% for the period from initial borrowing concurrent with the May 28, 2014 separation through September 30, 2014.

Our business model and status as a REIT requires us to regularly access the debt markets to raise funds for acquisition, development and redevelopment activity, and to refinance maturing debt. We may also, from time to time, access the equity capital markets to accomplish our business objectives. We believe we have sufficient cash on hand, availability under the Facility and cash flow from operations to address our debt maturities, dividends and capital needs through 2014.

The successful execution of our business strategy will require the availability of substantial amounts of operating and development capital both initially and over time. Sources of such capital could include bank

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borrowings, public and private offerings of debt or equity, including rights offerings, sale of certain assets and joint ventures. The major credit rating agencies initially assigned us an investment grade credit rating of BBB or Baa2. However, as a result of the announced Merger and related financings, the Company has been informed by S&P and Moody's that it has been placed on negative watch and Fitch has downgraded the Company to a BBB- rating. There can be no assurance that the Company will achieve a particular rating or maintain a particular rating in the future.

Cash Flows

Our net cash flow from operating activities and distributions of capital from unconsolidated entities totaled $200.1 million during the first nine months of 2014. During this period we also:

- funded the acquisitions of interests in properties for the net amount of $154.4 million,
- funded capital expenditures of $63.9 million (includes development costs of $1.0 million, renovation and expansion costs of $29.0 million, and tenant costs and other operational capital expenditures of $33.9 million),
- received net proceeds from sale of assets of $25.0 million,
- received net proceeds from our debt financing, refinancing and repayment activities of $1.2 billion,
- funded distributions to SPG of $1.1 billion primarily related to the separation,
- funded distributions to noncontrolling interest holders in properties of $0.8 million,
- funded distributions to common shareholders and unitholders of $47.1 million, and
- funded investments in unconsolidated entities primarily for development capital of $2.5 million.

In general, we anticipate that cash generated from operations will be sufficient to meet operating expenses, monthly debt service, recurring capital expenditures, and dividends to shareholders necessary to maintain WPG's status as a REIT on a long-term basis. In addition, we expect to be able to generate or obtain capital for nonrecurring capital expenditures, such as acquisitions, major building renovations and expansions, as well as for scheduled principal maturities on outstanding indebtedness, from:

- excess cash generated from operating performance and working capital reserves,
- borrowings on our debt arrangements,
- additional secured or unsecured debt financing, or
- additional WPG equity raised in the public or private markets.

We expect to generate positive cash flow from operations in 2014, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from rents paid by our retail tenants. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds from our debt arrangements, curtail planned capital expenditures, or seek

other additional sources of financing as discussed above.

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Financing and Debt

Mortgage Debt

Total mortgage indebtedness was $1.5 billion and $918.6 million at September 30, 2014 and December 31, 2013, respectively, as follows (in thousands):

	September 30, 2014	December 31, 2013
Face amount of mortgage loans	**$ 1,497,868**	$ 917,532
Premiums, net	**3,698**	1,082
Carrying value of mortgage loans	**$ 1,501,566**	$ 918,614

On June 20, 2014, resulting from our acquisition of the controlling interest in Clay Terrace (see "Acquisitions and Dispositions" below), we consolidated an additional mortgage with a fair value of $117.5 million.

On June 19, 2014, we closed on an extension of the 5.84% fixed rate mortgage on Chesapeake Square with unpaid principal balance of $64.7 million and original maturity date of August 1, 2014. The new maturity date is February 1, 2017, with a one-year extension option subject to certain requirements.

On June 18, 2014, resulting from our acquisition of the controlling interest in a portfolio of seven open-air shopping centers (see "Acquisitions and Dispositions" below), we consolidated additional mortgages on four properties with a fair value of $88.9 million.

On June 5, 2014, we repaid the mortgage on Sunland Park Mall in the amount of $30.7 million (including prepayment penalty of $2.9 million, which is recorded in interest expense for the nine months ended September 30, 2014 in the consolidated and combined statements of operations. The loan was due to mature on January 1, 2026. The repayment was funded through a borrowing on our credit facility (see below).

On February 20, 2014, West Ridge Mall refinanced its $64.6 million, 5.89% fixed rate mortgage maturing July 1, 2014 with a $54.0 million, 4.84% fixed rate mortgage that matures March 6, 2024. The new debt encumbers both West Ridge Mall and West Ridge Plaza.

On February 11, 2014, Brunswick Square refinanced its $76.5 million, 5.65% fixed rate mortgage maturing August 11, 2014 with a $77.0 million, 4.796% fixed rate mortgage that matures March 1, 2024.

In addition, prior to May 28, 2014, mortgages were obtained on previously unencumbered properties as follows (in millions):

Property	Amount	Interest Rate	Type	Maturity
Muncie Mall	$ 37.0	4.19%	Fixed	4/1/2021
Oak Court Mall	40.0	4.76%	Fixed	4/1/2021
Lincolnwood Town Center	53.0	4.26%	Fixed	4/1/2021
Cottonwood Mall	105.0	4.82%	Fixed	4/6/2024
Westminster Mall	85.0	4.65%	Fixed	4/1/2024
Charlottesville Fashion Square	50.0	4.54%	Fixed	4/1/2024
Town Center at Aurora	55.0	4.19%	Fixed	4/1/2019
Total(1)	$ 425.0			

(1) Proceeds were retained by SPG as part of the separation.

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Mortgage Debt Activity Subsequent to September 30, 2014

On October 10, 2014, the Company restructured the $94.0 million mortgage on Rushmore Mall, splitting the principal balance into an "A Note" of $58.0 million and a "B Note" of $36.0 million. The maturity date of both notes was extended from June 1, 2016 to February 1, 2019 and the interest rate of both notes remains at 5.79%. Interest accrues on both notes, with payment due currently on the A Note and at maturity on the B Note. Under a sale or refinance, amounts of principal and interest due on the B Note may be forgiven. At closing, the Company contributed $11.6 million to be applied towards closing costs and lender-held reserves.

On October 29, 2014, the Company repaid the $15.3 million mortgage on Lake View Plaza and $2.2 million mortgage on DeKalb Plaza through a $18.0 million borrowing under the Revolver.

Unsecured Debt

In April 2014, we closed on our Revolver and Term Loan. The Revolver provides borrowings on a revolving basis up to $900 million, bears interest at one-month LIBOR plus 1.05%, and will initially mature on May 30, 2018, subject to two, 6-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee. The Term Loan provides borrowings in an aggregate principal amount up to $500 million, bears interest at one-month LIBOR plus 1.15%, and will initially mature on May 30, 2016, subject to three, 12-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee.

In connection with the formation of WPG, and as contemplated in the Information Statement dated May 16, 2014 filed as Exhibit 99.1 to our current report on Form 8-K filed on May 20, 2014 (the "Information Statement"), we incurred $670.8 million of additional indebtedness under the Facility concurrent with the May 28, 2014 distribution or shortly thereafter. The proceeds of the borrowings under the Facility were used as follows: (i) $585.0 million was retained by SPG as part of the formation transactions, (ii) $30.7 million was used for the repayment of the Sunland Park Mall mortgage, (iii) $39.9 million was retained to cover transaction and other costs, (iv) $11.4 million was repaid to SPG for deferred loan financing costs and (v) the remaining $3.8 million was retained on hand for other corporate and working capital purposes. On June 17, 2014, we incurred an additional $170.0 million of indebtedness under the Facility, the proceeds of which were primarily used for the acquisition of our partner's interest in a portfolio of seven open-air shopping centers (see "Acquisitions and Dispositions" below).

At September 30, 2014, our unsecured debt consisted of $340.8 million outstanding under the Revolver and $500.0 million outstanding under the Term Loan. On September 30, 2014, we had an aggregate available borrowing capacity of $559.2 million under the Facility.

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 September 30, 2014, we were in compliance with all covenants of our unsecured debt.

At September 30, 2014, certain of our consolidated subsidiaries were the borrowers under 31 non-recourse mortgage loans secured by mortgages encumbering 36 properties, including four separate pools of cross-defaulted and cross- collateralized mortgages encumbering a total of 10 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. Our

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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. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. At September 30, 2014, the applicable borrowers under these 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.

Summary of Financing

Our consolidated debt and the effective weighted average interest rates as of September 30, 2014 and December 31, 2013, consisted of the following (dollars in thousands):

Debt Subject to	September 30, 2014	Effective Weighted Average Interest Rate	December 31, 2013	Effective Weighted Average Interest Rate
Fixed Rate	$ 1,501,566	5.22%	$ 918,614	5.87%
Variable Rate	840,750	1.27%		0.00%
Total	$ 2,342,316	3.80%	$ 918,614	5.87%

Contractual Obligations

In regards to long-term debt arrangements, the following table summarizes the material aspects of these future obligations on our indebtedness as of September 30, 2014, for the remainder of 2014, and subsequent years thereafter assuming the obligations remain outstanding through initial maturities (in thousands):

	2014	2015 - 2016	2017 - 2018	After 2018	Total
Long Term Debt(1)	$ 19,779	$ 1,055,105	$ 473,374	$ 790,360	$ 2,338,618
Interest Payments(2)	22,851	145,599	87,599	134,267	390,316
Total	$ 42,630	$ 1,200,704	$ 560,973	$ 924,627	$ 2,728,934

(1) Represents principal maturities only and therefore excludes net premiums of $3,698.

(2) Variable rate interest payments are estimated based on the LIBOR rate at September 30, 2014.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements consist primarily of investments in joint ventures which are common in the real estate industry. Joint ventures typically fund their cash needs through secured debt financings obtained by and in the name of the joint venture entity. The joint venture debt is secured by a first mortgage, is without recourse to the joint venture partners, and does not represent a liability of the partners, except to the extent the partners or their affiliates expressly guarantee the joint venture debt. As of September 30, 2014, there were no guarantees of joint venture related mortgage indebtedness. WPG may elect to fund cash needs of a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such fundings are not required contractually or otherwise.

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Equity Activity

Prior to the May 28, 2014 separation, the financial statements were carved-out from SPG's books and records; thus, pre-separation ownership was solely that of SPG and noncontrolling interests based on their respective ownership interests in SPG L.P. on the date of separation (see "Overview Basis of Presentation" for more information). Upon becoming a separate company on May 28, 2014, WPG's ownership is now classified under the typical stockholders' equity classifications of common stock, capital in excess of par value and retained earnings. Related to the separation, 155,162,597 shares of WPG common stock and 31,575,487 units of WPG L.P.'s limited partnership interest were issued to shareholders of SPG and unit holders of SPG L.P., respectively.

Stock Based Compensation

On May 28, 2014, the Company's Board of Directors 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 an 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. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards in WPG, or long term incentive plan ("LTIP") units or performance units in WPG, L.P. The Plan terminates on May 28, 2024.

Other Compensation Arrangements

On June 24, 2014, Mark Ordan, our Chief Executive Officer, was awarded 153,610 LTIP Units under the Plan, pursuant to the employment agreement between the Company and Mr. Ordan, dated as of February 15, 2014 (the "Employment Agreement"). The LTIP units were granted as "Inducement LTIP Units" under the terms of the Employment Agreement. Subject to certain exceptions, 25% of such LTIP units will become vested on each of the first four anniversaries of the effective date of the Employment Agreement based on continued employment.

Mr. Ordan is also entitled to receive special performance LTIP units ("Special PP Units") under the terms of the employment agreement that vest based upon the Company's achievement of certain shareholder return and outperformance of the Company's stock relative to certain indices. These Special PP Units were valued by an external specialist at a discount to the stock price on the date of the separation in order to allow for the possibility that the stock performance conditions will not be met. If the performance criteria have been met, a maximum amount, based on the closing price for the 20 consecutive trading days commencing on the separation date, of $2.0 million ("First Special PP"), $1.5 million ("Second Special PP") and $1.5 million ("Third Special PP") may become earned on December 31, 2015, 2016 and 2017, respectively. The earned First and Second Special Units will vest on May 28, 2017 and the earned Third Special PP Units will be vested immediately upon being earned, subject to continued employment. The grant date fair value of the award of $2.3 million is being recognized as expense over the applicable vesting periods of the Special PP Units.

Additionally, the employment agreement provides that Mr. Ordan will receive an annual grant of LTIP units with respect to each fiscal year during the term of the employment agreement, to be made no later than promptly following the completion of our audited financial statements for such fiscal year and on terms no less favorable than the annual LTIP unit awards made to our other senior executives (the "Annual LTIP Units"). The number of Annual LTIP Units granted in respect of a fiscal year will be determined based on our achievement of total shareholder return ("TSR") goals with respect to such fiscal year by dividing a cash amount, not greater than $0.75 million, by the average closing price of our common stock for the final 15 trading days of such fiscal year, with Annual LTIP Units awarded in respect of fiscal year 2014 pro-rated based on the number of days from March 15, 2014 to December 31, 2014. Annual LTIP

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Units vest at a rate of one-third on each of the first three anniversaries of the first day of the fiscal year following the fiscal year in respect of which such Annual LTIP Units were granted, subject to Mr. Ordan's continued employment on each such vesting date.

On August 25, 2014, the Company awarded 130,000 time-vested LTIP Units ("Officer Inducement LTIP Units") to the executive officers of the Company under the Plan, pursuant to LTIP Unit Award Agreements between the Company and each of the officers. The Officer Inducement LTIP Units vest 25% on each of the first four anniversaries of the award date, subject to each respective officer's continued employment on each such vesting date.

On August 25, 2014, the Company awarded LTIP units subject to performance conditions described below ("Officer Performance LTIP Units") to each of the executive officers of the Company in the maximum total amount of 195,000 units. The Officer Performance LTIP Units relate to the following performance periods: from May 28, 2014 to (i) December 31, 2015, (ii) December 31, 2016, and (iii) December 31, 2017, in each case, subject to the officer's continued employment through the applicable vesting date. The vesting date is May 28, 2017 for the performance periods ending in 2015 and 2016 and is the applicable grant date for the performance period ending in 2017. The Performance LTIP Units are granted promptly (and in any event within 15 days) of the end of each applicable performance period. In each case, the maximum number of Officer Performance LTIP Units granted for each of the performance periods is one-third of the maximum total amount described above. The number of Officer Performance LTIP Units granted in respect of each performance period will be determined as a percentage of the maximum, based on the Company's achievement of absolute and relative (versus the MSCI REIT Index) total shareholder return ("TSR") goals, with 40% of the Officer Performance LTIP Units available for grant with respect to each performance period granted based on achievement of absolute TSR goals, and 60% of the Officer Performance LTIP Units available for grant with respect to each performance period granted based on achievement of relative TSR goals.

We recorded compensation expense related to all LTIP units of approximately $1.2 million and $1.3 million for the three and nine months ended September 30, 2014, respectively, which expense is included in general and administrative expense in the consolidated and combined statements of operations.

Board of Directors Compensation

On August 4, 2014, the Board of Directors approved annual compensation for the period of May 28, 2014 through May 28, 2015 for the independent members of the Board of Directors of the Company. Each independent director's annual compensation shall total $0.2 million based on a combination of cash and restricted stock units granted under the Plan.

Dividends

On September 15, 2014, the Company paid a quarterly cash dividend of $0.25 per common share/unit. On August 4, 2014, the Company's Board of Directors had declared the dividend to shareholders and unitholders of record on August 27, 2014, with an ex-dividend date of August 25, 2014.

On November 4, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.25 per common share/unit, payable on December 15, 2014, to shareholders and unitholders of record on November 26, 2014, with an ex-dividend date of November 25, 2014.

Acquisitions and Dispositions

Buy-sell, marketing rights, and other exit mechanisms are common in real estate partnership agreements. Most of our partners are institutional investors who have a history of direct investment in retail real estate. We and our partners in our joint venture properties may initiate these provisions (subject

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to any applicable lock up or similar restrictions). If we determine it is in our shareholders' best interests for us to purchase the joint venture interest and we believe we have adequate liquidity to execute the purchase without hindering our cash flows, then we may initiate these provisions or elect to buy. If we decide to sell any of our joint venture interests, we expect to use the net proceeds to reduce outstanding indebtedness or to reinvest in development, redevelopment, or expansion opportunities.

Acquisitions. We pursue the acquisition of properties that meet our strategic criteria.

On June 20, 2014, we acquired our partner's 50 percent interest in Clay Terrace, a 577,000 square foot lifestyle center located in Carmel, Indiana for approximately $22.9 million, paid by issuing 1,173,678 units of WPG L.P. The center is anchored by Dick's Sporting Goods, DSW and Whole Foods and includes several national and local retailers as well as a variety of dining options. Also included in the transaction is land available for development. The property was previously accounted for under the equity method, but is now consolidated as it is wholly owned post-acquisition. The consolidation of this previously unconsolidated property resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $44.6 million which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations.

On June 18, 2014, we acquired our partner's interest in a portfolio of seven open-air shopping centers, consisting of four centers located in Florida, and one each in Indiana, Connecticut and Virginia, for approximately $162.0 million. The portfolio of properties totals over 2.1 million square feet. Also included in this transaction is land valued at approximately $4.0 million. Previously, we held between 32 percent to 42 percent legal ownership interests in the properties, but received substantially less economic benefit due to the partner's preferred capital allocation. The properties were previously accounted for under the equity method, but are now consolidated as four properties are wholly owned and three properties are approximately 88.2 percent owned post-acquisition. The consolidation of these previously unconsolidated properties resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $42.3 million which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations. The source of funding for the acquisition was a borrowing under the Revolver (see "Financing and Debt" above).

On January 10, 2014, SPG acquired one of its partner's remaining interests in three properties that were contributed to WPG. The consideration paid for the partner's remaining interests in these three properties was approximately $4.6 million. Two of these properties were previously consolidated and are now wholly owned. The remaining property is accounted for under the equity method.

Dispositions. We pursue the disposition of properties that no longer meet our strategic criteria.

On July 17, 2014, we sold Highland Lakes Center, a wholly owned shopping center in Orlando, FL, for net proceeds of $20.5 million, resulting in a gain of approximately $9.0 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations.

On June 23, 2014, we sold New Castle Plaza, a wholly owned shopping center in New Castle, Indiana, for net proceeds of $4.4 million, resulting in a gain of approximately $2.4 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations.

On February 28, 2014, SPG disposed of its interest in one unconsolidated shopping center and, on February 21, 2013, SPG increased its economic interest in three unconsolidated shopping centers and subsequently disposed of its interests in those properties. Each of these properties was part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG on May 28, 2014.

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Development Activity

New Development, Expansions and Redevelopments. We routinely incur costs related to construction for significant redevelopment and expansion projects at our properties. We expect our share of development costs for 2014 related to these activities to be approximately $75.0 million. Our estimated stabilized return on invested capital typically ranges between 8% and 12%.

In addition, we own land for the development of a new 400,000 square foot shopping center in the Houston metropolitan area, to be named Fairfield Town Center. The projected cost of this development is expected to be approximately $75.0 million. The carrying value of this project is $10.8 million at September 30, 2014 which primarily relates to the cost of the underlying land and site improvements for infrastructure. The development is expected to be fully completed in the first half of 2016.

As of September 30, 2014, approximately $300 million of development and redevelopment projects have been identified, including the Fairfield Town Center development. These projects generally consist of expansions and redevelopment of existing centers and leasing of anchor and big-box tenants.

During the second quarter of 2014, we commenced redevelopment activities at Jefferson Valley Mall, a 556,000 square foot shopping center located in the New York City area. The total cost of this project is expected to be approximately $44.0 million. The redevelopment is expected to be fully completed in mid-2016.

During the third quarter of 2013, we opened University Town Plaza, a former enclosed mall which was redeveloped into a 580,000 square foot open-air shopping center located in Pensacola, Florida. The total cost of this project was approximately $33.0 million.

We do not expect to hold material land for development. Land currently held for future development is substantially limited to the land parcels held for the development of Fairfield Town Center as discussed above, and other additional parcels at our current centers which we may utilize for expansion of the existing center or sales of outlots.

Capital Expenditures.

The following table summarizes total capital expenditures on a cash basis (in thousands) for the nine months ended September 30, 2014:

New developments(1)	$	**1,007**
Redevelopments and expansions		**28,958**
Tenant allowances		**22,420**
Operational capital expenditures		**11,483**
Total	$	**63,868**

(1) Primarily relates to land held for development of Fairfield Town Center.

Forward-Looking Statements

Certain statements made in this section or elsewhere in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Such factors include, but are not limited to: our ability to meet debt service requirements, the availability of financing, changes in our credit rating, changes in market rates of interest, the ability to hedge interest rate risk, risks associated with the acquisition, development and expansion of

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properties, general risks related to retail real estate, the liquidity of real estate investments, environmental liabilities, international, national, regional and local economic climates, changes in market rental rates, trends in the retail industry, relationships with anchor tenants, the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise, risks relating to joint venture properties, intensely competitive market environment in the retail industry, costs of common area maintenance, insurance costs and coverage, terrorist activities, changes in economic and market conditions and maintenance of our status as a real estate investment trust. We discussed these and other risks and uncertainties under the heading "Risk Factors" in the Information Statement, and we discussed certain risks and uncertainties under the heading "Risk Factors" in the Form S-4, incorporated by reference into Item 1A of Part II of this report. We undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

Non-GAAP Financial Measures

Industry practice is to evaluate real estate properties in part based on FFO, NOI and comparable property NOI. We believe that these non-GAAP measures are helpful to investors because they are widely recognized measures of the performance of REITs and provide a relevant basis for our comparison among REITs. We also use these measures internally to measure the operating performance of our portfolio.

We determine FFO based on the definition set forth by the National Association of Real Estate Investment Trusts, or NAREIT, as net income computed in accordance with GAAP:

- excluding real estate related depreciation and amortization,
- excluding gains and losses from extraordinary items and cumulative effects of accounting changes,
- excluding gains and losses from the sales or disposals of previously depreciated retail operating properties (in which we have included gains and losses upon acquisition of controlling interests in such properties),
- excluding impairment charges of depreciable real estate,
- plus the allocable portion of FFO of unconsolidated entities accounted for under the equity method of accounting based upon economic ownership interest, and
- all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale or disposal of, or any impairment charges related to, previously depreciated operating properties.

We include in FFO gains and losses realized from the sale of land, outlot buildings, marketable and non-marketable securities, and investment holdings of non-retail real estate.

You should understand that our computation of these non-GAAP measures might not be comparable to similar measures reported by other REITs and that these non-GAAP measures:

- do not represent cash flow from operations as defined by GAAP,
- should not be considered as alternatives to net income determined in accordance with GAAP as a measure of operating performance,

are not alternatives to cash flows as a measure of liquidity, and

may not be reflective of WPG's operating performance due to changes in WPG's capital structure in connection with the separation and distribution.

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The following schedule reconciles total FFO to net income (in thousands, except share/unit amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net Income	**$ 38,821**	$ 38,581	**$ 164,604**	$ 135,830
Adjustments to Arrive at FFO:				
Depreciation and amortization from consolidated properties	**49,301**	46,771	**142,555**	137,171
Our share of depreciation and amortization from unconsolidated entities	**337**	1,172	**2,473**	3,597
Gain upon acquisition of controlling interests and on sale of interests in properties	**(8,969)**	0	**(100,479)**	(14,152)
Net income attributable to noncontrolling interest holders in properties	**0**	(46)	**0**	(178)
Noncontrolling interests portion of depreciation and amortization	**0**	(41)	**0**	(118)
FFO of the Operating Partnership(1)	**$ 79,490**	$ 86,437	**$ 209,153**	$ 262,150
FFO allocable to limited partners	**13,925**	14,616	**35,844**	44,327
FFO allocable to shareholders	**$ 65,565**	$ 71,821	**$ 173,309**	$ 217,823
Diluted net income per share	**$ 0.21**	$ 0.21	**$ 0.88**	$ 0.73
Adjustments to arrive at FFO per share:				
Depreciation and amortization from consolidated properties and our share of depreciation and amortization from unconsolidated properties	**0.26**	0.25	**0.78**	0.75
Gain upon acquisition of controlling interests and on sale of interests in properties	**(0.05)**		**(0.54)**	(0.08)
Diluted FFO per share	**$ 0.42**	$ 0.46	**$ 1.12**	$ 1.40
Basic and diluted weighted average shares outstanding	**155,162,597**	155,162,597	**155,162,597**	155,162,597
Weighted average limited partnership units outstanding	**32,955,058**	31,575,487	**32,091,064**	31,575,487
Diluted weighted average shares and units outstanding	**188,117,655**	186,738,084	**187,253,661**	186,738,084

(1) FFO includes transaction costs related to WPG's separation from SPG of $39.9 million, or $0.21 per diluted share, in the nine months ended September 30, 2014 and costs associated with the proposed merger with Glimcher of $2.5 million, or $0.01 per diluted share, in the three and nine months ended September 30, 2014. Additionally, FFO includes general and administrative costs related to being a

publicly traded company after the separation of $4.4 million, or $0.02 per diluted share, and $6.3 million, or $0.03 per diluted share, in the three and nine months ended September 30, 2014, respectively. Finally, FFO includes interest expense related to additional indebtedness incurred related to the separation of approximately $9.2 million, or $0.05 per diluted share, and approximately $15.9 million, or $0.08 per diluted share, in the three and nine months ended September 31, 2014, respectively.

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The following schedule reconciles NOI to net income and sets forth the computations of comparable property NOI (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Reconciliation of NOI of consolidated properties:				
Net Income	**$ 38,821**	$ 38,581	**$ 164,604**	$ 135,830
Income and other taxes	**134**	68	**275**	170
Interest expense	**23,219**	13,791	**59,813**	41,247
Gain on upon acquisition of controlling interests and on sale of interests in properties	**(8,969)**		**(100,479)**	(14,152)
Income from unconsolidated entities	**(99)**	(353)	**(846)**	(852)
General and administrative	**4,395**		**6,260**	
Transaction and related costs			**39,931**	
Merger costs	**2,500**		**2,500**	
Operating Income	**60,001**	52,087	**172,058**	162,243
Depreciation and amortization	**49,307**	46,771	**142,563**	137,171
NOI of consolidated properties	**$ 109,308**	$ 98,858	**$ 314,621**	$ 299,414
Reconciliation of NOI of unconsolidated entities:				
Net Income	**$ 701**	$ 3,457	**$ 6,625**	$ 10,432
Interest expense	**1,084**	3,634	**7,908**	10,709
NOI of properties sold	**20**	22	**28**	(523)
Operating Income	**1,805**	7,113	**14,561**	20,618
Depreciation and amortization	**1,200**	3,691	**8,450**	11,101
NOI of unconsolidated entities	**$ 3,005**	$ 10,804	**$ 23,011**	$ 31,719
Total consolidated and unconsolidated NOI from continuing operations	**$ 112,313**	$ 109,662	**$ 337,632**	$ 331,133
Adjustments to NOI:				
NOI of properties sold	**(21)**	71	**33**	1,225
Total NOI of our portfolio	**$ 112,292**	$ 109,733	**$ 337,665**	$ 332,358

Change in NOI from prior period	**2.3%**		**1.6%**	
Less: Joint venture partners' share of NOI	**(2,517)**	(8,746)	**(18,165)**	(27,050)
Our Share of NOI	**$ 109,775**	$ 100,987	**$ 319,500**	$ 305,308
Increase in our share of NOI from prior period	**8.7%**		**4.6%**	
Total NOI of our portfolio	**$ 112,292**	$ 109,733	**$ 337,665**	$ 332,358
NOI from non comparable properties(1)	**2,912**	3,349	**10,833**	10,612
Total NOI of comparable properties(2)	**$ 109,380**	$ 106,384	**$ 326,832**	$ 321,746
Change in NOI of comparable properties	**2.8%**		**1.6%**	

(1) NOI excluded from comparable property NOI relates to properties not owned and operated in both periods under comparison and excluded income noted in footnote 2 below.

(2) Comparable properties are shopping centers that were owned in both of the periods under comparison. Eight properties were considered non comparable for the periods under comparison. Excludes lease termination income, interest income, land sale gains and the impact of significant redevelopment activities.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Sensitivity Analysis. We are exposed to market risk from changes in interest rates. We seek limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under GAAP guidance. As of September 30, 2014, $840.8 million of our aggregate indebtedness (35.9% of total indebtedness) was subject to variable interest rates.

If market rates of interest on our variable rate debt fluctuate by 50 basis points, future earnings and cash flows would increase or decrease, depending on rate movement, by $4.2 million annually. This assumes that the amount outstanding under our variable rate debt remains at $840.8 million, the balance as of September 30, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f)) that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

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.

See "Overview Basis of Presentation" in Part I, Item 2 for a discussion of Merger-related litigation.

Item 1A. Risk Factors

The risk factors set forth under the caption "Risk Factors" in our registration statement on Form S-4 filed with the Commission on October 28, 2014 (File No. 333-199626) are incorporated herein by reference and filed as Exhibit 99.1 to this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

Exhibit Number	Exhibit Descriptions
2.1	Separation and Distribution Agreement by and among Simon Property Group, Inc., Simon Property Group, L.P., Washington Prime Group Inc. and Washington Prime Group, L.P., dated as of May 27, 2014 (incorporated by reference to Form 8-K filed May 29, 2014)
2.2	Agreement and Plan of Merger, dated September 16, 2014, between Glimcher Realty Trust, Glimcher LP, Washington Prime Group Inc. and Washington Prime Group LP (including the exhibits attached thereto) (incorporated by reference to Form 8-K filed September 19, 2014)
3.1	Amended and Restated Articles of Incorporation of Washington Prime Group Inc. (incorporated by reference to Amendment No. 2 to Form 10 filed March 24, 2014)
3.2	Amended and Restated Bylaws of Washington Prime Group Inc. (incorporated by reference to Amendment No. 2 to Form 10 filed March 24, 2014)
10.1	Form of Director Restricted Stock Unit Award Agreement (incorporated by reference to Form 8-K filed August 8, 2014)
10.2	Form of Series 2014B LTIP Unit Award Agreements with Officers (incorporated by reference to Form 8-K filed August 28, 2014)
10.3	Certificate of Designation of Series 2014B LTIP Units of Washington Prime Group, L.P. (incorporated by reference to Form 8-K filed August 28, 2014)
10.4	Terms and Conditions of the Grant of Special Performance LTIP Units to Officers (incorporated by reference to Form 8-K filed August 28, 2014)
10.5	Employment Agreement with Butch Knerr dated as of September 8, 2014 (incorporated by reference to Form 8-K filed September 8, 2014)
10.6	Employment Agreement between Michael P. Glimcher and Washington Prime Group Inc., dated September 16, 2014 (incorporated by reference to Form 8-K filed September 19, 2014)
10.7	Amendment to Severance Benefits Agreement between Michael P. Glimcher and Washington Prime Group Inc., dated September 16, 2014 (incorporated by reference to Form 8-K filed September 19, 2014)
10.8	Amendment No. 1 to Revolving Credit and Term Loan Agreement, dated as of October 16, 2014, among Washington Prime Group, L.P., the lenders party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Form 8-K filed October 17, 2014)
31.1	Certification by the Chief Executive Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Risk Factors from Form S-4 filed by the registrant on October 28, 2014 (File No. 333-199626)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

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Exhibit Number	Exhibit Descriptions
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

WASHINGTON PRIME GROUP INC.

By: /s/ C. MARC RICHARDS

Name: C. Marc Richards
Title: *Vice President and Chief Financial Officer*

Date: November 4, 2014