

INLAND WESTERN RETAIL REAL ESTATE TRUST INC

Form 10-Q

May 10, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2011**

**or**

- o** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from                      to**

**Commission File Number: 000-51199**

**Inland Western Retail Real Estate Trust, Inc.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of incorporation or organization)

**42-1579325**  
(I.R.S. Employer Identification No.)

**2901 Butterfield Road, Oak Brook, Illinois**  
(Address of principal executive offices)

**60523**  
(Zip Code)

**630-218-8000**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class:**  
None

**Name of each exchange on which registered:**  
None

Securities registered pursuant to Section 12(g) of the Act:

**Title of class:**  
Common stock, \$.001 par value per share

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer   
(Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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

As of May 9, 2011, there were 480,461,909 shares of common stock outstanding.



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**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.**

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## Item 1. Condensed Consolidated Financial Statements

**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.****Condensed Consolidated Balance Sheets**

March 31, 2011 and December 31, 2010

(Unaudited)

(in thousands, except per share amounts)

	March 31, 2011	December 31, 2010
<u>Assets</u>		
Investment properties:		
Land	\$ 1,366,092	\$ 1,375,155
Building and other improvements	5,206,116	5,258,992
Developments in progress	87,956	87,095
	6,660,164	6,721,242
Less accumulated depreciation	(1,067,864)	(1,034,769)
Net investment properties	5,592,300	5,686,473
Cash and cash equivalents	97,024	130,213
Investment in marketable securities	36,793	34,230
Investment in unconsolidated joint ventures	31,498	33,465
Accounts and notes receivable (net of allowances of \$9,978 and \$9,138, respectively)	100,144	112,915
Acquired lease intangibles, net	216,393	230,046
Other assets, net	174,897	159,494
Total assets	\$ 6,249,049	\$ 6,386,836
<u>Liabilities and Equity</u>		
Liabilities:		
Mortgages and notes payable	\$ 3,325,077	\$ 3,602,890
Secured credit facility	370,000	154,347
Accounts payable and accrued expenses	65,788	84,570
Distributions payable	28,433	26,851
Acquired below market lease intangibles, net	89,972	92,099
Other financings	8,477	8,477
Co-venture obligation	51,556	51,264
Other liabilities	67,492	69,746
Total liabilities	4,006,795	4,090,244
Redeemable noncontrolling interests	527	527
Commitments and contingencies		
Equity:		
Preferred stock, \$0.001 par value, 10,000 shares authorized, none issued or outstanding		

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Common stock, \$0.001 par value, 640,000 shares authorized, 478,868 and 477,345 issued and outstanding at March 31, 2011 and December 31, 2010, respectively		479		477
Additional paid-in capital		4,393,726		4,383,281
Accumulated distributions in excess of earnings		(2,179,596)		(2,111,138)
Accumulated other comprehensive income		25,882		22,282
Total shareholders' equity		2,240,491		2,294,902
Noncontrolling interests		1,236		1,163
Total equity		2,241,727		2,296,065
Total liabilities and equity	\$	6,249,049	\$	6,386,836

See accompanying notes to condensed consolidated financial statements

Table of Contents**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.****Condensed Consolidated Statements of Operations and Other Comprehensive Loss**

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Rental income	\$ 124,011	\$ 128,033
Tenant recovery income	28,482	32,026
Other property income	2,825	3,983
Insurance captive income		713
Total revenues	155,318	164,755
<b>Expenses:</b>		
Property operating expenses	28,764	29,242
Real estate taxes	19,274	22,978
Depreciation and amortization	60,149	61,549
Provision for impairment of investment properties	30,373	
Loss on lease terminations	3,338	2,982
Insurance captive expenses		1,225
General and administrative expenses	6,328	4,826
Total expenses	148,226	122,802
Operating income	7,092	41,953
Dividend income	676	1,683
Interest income	180	187
Gain on extinguishment of debt	10,723	
Equity in (loss) income of unconsolidated joint ventures	(2,178)	10
Interest expense	(61,750)	(64,026)
Co-venture obligation expense	(1,792)	(1,792)
Recognized gain on marketable securities, net		771
Other income (expense)	582	(5,092)
Loss from continuing operations	(46,467)	(26,306)
<b>Discontinued operations:</b>		
Operating income (loss)	331	(2,209)
Gain on sales of investment properties	3,459	52
Income (loss) from discontinued operations	3,790	(2,157)
Gain on sales of investment properties	2,660	
Net loss	(40,017)	(28,463)
Net income attributable to noncontrolling interests	(8)	(93)
Net loss attributable to Company shareholders	\$ (40,025)	\$ (28,556)
<b>(Loss) earnings per common share-basic and diluted:</b>		
Continuing operations	\$ (0.09)	\$ (0.05)
Discontinued operations	0.01	(0.01)
Net loss per common share attributable to Company shareholders	\$ (0.08)	\$ (0.06)
Net loss	\$ (40,017)	\$ (28,463)

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Other comprehensive loss:			
Net unrealized gain on derivative instruments		1,037	187
Net unrealized gain on marketable securities		2,563	10,008
Reversal of unrealized gain to recognized gain on marketable securities, net			(771)
Comprehensive loss		(36,417)	(19,039)
Comprehensive income attributable to noncontrolling interests		(8)	(93)
Comprehensive loss attributable to Company shareholders	\$	(36,425)	\$ (19,132)
Weighted average number of common shares outstanding-basic and diluted		478,721	482,402

See accompanying notes to condensed consolidated financial statements



Table of Contents**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.****Condensed Consolidated Statements of Equity**

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2010	481,743	\$ 482	\$ 4,350,484	\$ (1,920,716)	\$ 11,300	\$ 2,441,550	\$ 4,169	\$ 2,445,719
Net (loss) income (excluding net income of \$8 attributable to redeemable noncontrolling interests)				(28,556)		(28,556)	85	(28,471)
Net unrealized gain on derivative instruments					187	187		187
Net unrealized gain on marketable securities					10,008	10,008		10,008
Reversal of unrealized gain to recognized gain on marketable securities, net					(771)	(771)		(771)
Distributions declared (\$0.04 per weighted average number of common shares outstanding)				(21,109)		(21,109)		(21,109)
Distribution reinvestment program (DRP)	738		6,268			6,268		6,268
Stock based compensation expense			11			11		11
Balance at March 31, 2010	482,481	\$ 482	\$ 4,356,763	\$ (1,970,381)	\$ 20,724	\$ 2,407,588	\$ 4,254	\$ 2,411,842
Balance at January 1, 2011	477,345	\$ 477	\$ 4,383,281	\$ (2,111,138)	\$ 22,282	\$ 2,294,902	\$ 1,163	\$ 2,296,065
Net loss (excluding net income of \$8 attributable to redeemable noncontrolling interests)				(40,025)		(40,025)		(40,025)

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Net unrealized gain on derivative instruments			1,037		1,037		1,037
Net unrealized gain on marketable securities			2,563		2,563		2,563
Contributions from noncontrolling interests						73	73
Distributions declared (\$0.06 per weighted average number of common shares outstanding)				(28,433)		(28,433)	(28,433)
DRP	1,523	2	10,429			10,431	10,431
Stock based compensation expense			16			16	16
Balance at March 31, 2011	478,868	\$ 479	\$ 4,393,726	\$ (2,179,596)	\$ 25,882	\$ 2,240,491	\$ 1,236 \$ 2,241,727

See accompanying notes to condensed consolidated financial statements

Table of Contents**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.****Condensed Consolidated Statements of Cash Flows**

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (40,017)	\$ (28,463)
Adjustments to reconcile net loss to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization	60,275	62,251
Provision for impairment of investment properties	30,373	
Gain on sales of investment properties	(6,119)	(52)
Gain on extinguishment of debt	(10,723)	
Loss on lease terminations	3,338	2,982
Non-cash co-venture obligation expense	292	250
Amortization of loan fees	3,480	3,551
Amortization of acquired above and below market lease intangibles	(375)	(560)
Amortization of mortgage debt premium	(609)	
Amortization of discount on debt assumed	127	127
Amortization of lease inducements	15	15
Straight-line rental income	(723)	(1,961)
Straight-line ground rent expense	956	1,128
Stock based compensation expense	16	11
Equity in loss (income) of unconsolidated joint ventures	2,178	(10)
Distributions from unconsolidated joint ventures	473	1,298
Recognized gain on sale of marketable securities		(771)
Provision for bad debt	1,376	2,135
Payment of leasing fees	(2,223)	(1,518)
Costs associated with refinancings	283	81
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	12,118	14,517
Other assets	580	3,903
Accounts payable and accrued expenses	(18,647)	(16,440)
Other liabilities	(4,589)	(3,859)
Net cash provided by operating activities	31,855	38,615
<b>Cash flows from investing activities:</b>		
Proceeds from sale of marketable securities		911
Changes in restricted escrows	(5,430)	(22,012)
Purchase of investment properties		(501)
Capital expenditures and tenant improvements	(6,056)	(2,206)
Proceeds from sales of investment properties	28,335	10,561
Investment in developments in progress	(996)	(615)

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Investment in unconsolidated joint ventures	(684)	(1,384)
Payments received under master lease agreements	65	354
Net cash provided by (used in) investing activities	\$ 15,234	\$ (14,892)

(continued)

See accompanying notes to condensed consolidated financial statements

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**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.**

**Condensed Consolidated Statements of Cash Flows**

(Continued)

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from financing activities:		
Proceeds from margin debt related to marketable securities	\$	\$ 12,860
Payoff of margin debt related to marketable securities	(656)	(1,974)
Proceeds from mortgages and notes payable	10,424	229,056
Principal payments on mortgages and notes payable	(10,702)	(5,806)
Repayments of mortgages and notes payable	(265,674)	(261,383)
Proceeds from secured credit facility	284,764	60,000
Payoff of secured credit facility	(69,111)	(25,000)
Funds released from escrow restrictions, net	(86)	
Payment of rate lock deposits		(11,223)
Refund of rate lock deposits		5,748
Payment of loan fees and deposits	(11,151)	(8,909)
Payment of offering costs	(1,731)	
Distributions paid, net of DRP	(16,420)	