RETAIL PROPERTIES OF AMERICA, INC.
Form 10-Q
May 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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: 001-35481

Retail Properties of America, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**42-1579325**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2901 Butterfield Road, Oak Brook, Illinois	**60523**
(Address of principal executive offices)	(Zip Code)

630-218-8000
(Registrant's telephone number, including area code)

Inland Western Retail Real Estate Trust, Inc.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Large accelerated filer o Accelerated filer o Smaller reporting company o

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

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

Number of shares outstanding of the registrant's classes of common stock as of May 3, 2012:

Class A common stock 85,088,389 shares
Class B-1 common stock 48,518,389 shares
Class B-2 common stock 48,518,389 shares
Class B-3 common stock 48,518,389 shares

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Part I Financial Information

Item 1. Financial Statements

RETAIL PROPERTIES OF AMERICA, INC.

Condensed Consolidated Balance Sheets

March 31, 2012 and December 31, 2011
(Unaudited)
(in thousands, except par value amounts)

	March 31, 2012	December 31, 2011
Assets		
Investment properties:		
Land	$ 1,332,833	$ 1,334,363
Building and other improvements	5,054,181	5,057,252
Developments in progress	50,200	49,940
	6,437,214	6,441,555
Less accumulated depreciation	(1,227,076)	(1,180,767)
Net investment properties	5,210,138	5,260,788
Cash and cash equivalents	126,115	136,009
Investment in marketable securities, net	35,371	30,385
Investment in unconsolidated joint ventures	59,703	81,168
Accounts and notes receivable (net of allowances of $7,819 and $8,231, respectively)	86,643	94,922
Acquired lease intangibles, net	163,571	174,404
Other assets, net	159,065	164,218
Total assets	$ 5,840,606	$ 5,941,894
Liabilities and Equity		
Liabilities:		
Mortgages and notes payable	$ 2,839,144	$ 2,926,218
Credit facility	600,000	555,000
Accounts payable and accrued expenses	59,215	83,012
Distributions payable	32,169	31,448
Acquired below market lease intangibles, net	79,831	81,321
Other financings		8,477
Co-venture obligation	55,000	52,431
Other liabilities	70,341	66,944
Total liabilities	3,735,700	3,804,851
Redeemable noncontrolling interests		525
Commitments and contingencies (Note 14)		
Equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, none issued or outstanding		
Class A common stock, $0.001 par value, 475,000 shares authorized, 48,557 and 48,382 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	48	48
Class B-1 common stock, $0.001 par value, 55,000 shares authorized, 48,557 and 48,382 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	48	48
	49	49

Class B-2 common stock, $0.001 par value, 55,000 shares authorized, 48,558 and 48,382 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		
Class B-3 common stock, $0.001 par value, 55,000 shares authorized, 48,558 and 48,383 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	49	49
Additional paid-in capital	4,439,699	4,427,977
Accumulated distributions in excess of earnings	(2,361,334)	(2,312,877)
Accumulated other comprehensive income	24,853	19,730
Total shareholders' equity	2,103,412	2,135,024
Noncontrolling interests	1,494	1,494
Total equity	2,104,906	2,136,518
Total liabilities and equity	$ 5,840,606	$ 5,941,894

See accompanying notes to condensed consolidated financial statements

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RETAIL PROPERTIES OF AMERICA, INC.

Condensed Consolidated Statements of Operations and Other Comprehensive Loss

For the Three Months Ended March 31, 2012 and 2011
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues:		
Rental income	$ 122,170	$ 121,570
Tenant recovery income	28,461	27,937
Other property income	2,763	2,816
Total revenues	153,394	152,323
Expenses:		
Property operating expenses	25,128	28,444
Real estate taxes	19,979	18,868
Depreciation and amortization	58,607	59,127
Provision for impairment of investment properties		30,373
Loss on lease terminations	3,724	3,338
General and administrative expenses	4,921	6,327
Total expenses	112,359	146,477
Operating income	41,035	5,846
Dividend income	865	676
Interest income	21	180
Gain on extinguishment of debt	3,879	10,723
Equity in loss of unconsolidated joint ventures, net	(2,318)	(2,178)
Interest expense	(55,005)	(61,313)
Co-venture obligation expense	(2,903)	(1,792)
Other (expense) income, net	(3,546)	583
Loss from continuing operations	(17,972)	(47,275)
Discontinued operations:		
Operating income, net	90	1,139
Gain on sales of investment properties	915	3,459
Income from discontinued operations	1,005	4,598
Gain on sales of investment properties	679	2,660
Net loss	(16,288)	(40,017)
Net income attributable to noncontrolling interests		(8)
Net loss attributable to Company shareholders	$ (16,288)	$ (40,025)
(Loss) earnings per common share-basic and diluted:		
Continuing operations	$ (0.09)	$ (0.23)
Discontinued operations	0.01	0.02
Net loss per common share attributable to Company shareholders	$ (0.08)	$ (0.21)

Net loss	$ (16,288)	$ (40,017)
Other comprehensive loss:		
Net unrealized gain on derivative instruments	137	1,037
Net unrealized gain on marketable securities	4,986	2,563
Comprehensive loss	(11,165)	(36,417)
Comprehensive income attributable to noncontrolling interests		(8)
Comprehensive loss attributable to Company shareholders	$ (11,165)	$ (36,425)
Weighted average number of common shares outstanding basic and diluted	194,119	191,488

See accompanying notes to condensed consolidated financial statements

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RETAIL PROPERTIES OF AMERICA, INC.

Condensed Consolidated Statements of Equity

For the Three Months Ended March 31, 2012 and 2011
(Unaudited)
(in thousands, except per share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	**Amount**	**Shares**	**Amount**						
Balance at January 1, 2011	47,734	$ 47	143,204	$ 144	$ 4,383,567	$ (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)
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 ($0.15 per weighted average number of common shares outstanding)						(28,433)		(28,433)		(28,433)
Distribution reinvestment program (DRP)	152		457	1	10,430			10,431		10,431
Stock based compensation expense					16			16		16
Balance at March 31, 2011	47,886	$ 47	143,661	$ 145	$ 4,394,013	$ (2,179,596)	$ 25,882	$ 2,240,491	$ 1,236	$ 2,241,727
Balance at January 1, 2012	48,382	$ 48	145,147	$ 146	$ 4,427,977	$ (2,312,877)	$ 19,730	$ 2,135,024	$ 1,494	$ 2,136,518
Net loss						(16,288)		(16,288)		(16,288)
Net unrealized gain on derivative instruments							137	137		137
Net unrealized gain on marketable securities							4,986	4,986		4,986
Distributions declared ($0.17 per weighted average number of common shares outstanding)						(32,169)		(32,169)		(32,169)
DRP	167		502		11,626			11,626		11,626
Issuance of restricted common stock	8		24							
Stock based compensation expense					96			96		96
Balance at March 31, 2012	48,557	$ 48	145,673	$ 146	$ 4,439,699	$ (2,361,334)	$ 24,853	$ 2,103,412	$ 1,494	$ 2,104,906

See accompanying notes to condensed consolidated financial statements

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RETAIL PROPERTIES OF AMERICA, INC.

Condensed Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2012 and 2011
(Unaudited)
(in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities:		
Net loss	$ (16,288)	$ (40,017)
Adjustments to reconcile net loss to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization	58,621	60,275
Provision for impairment of investment properties		30,373
Gain on sales of investment properties	(1,594)	(6,119)
Gain on extinguishment of debt	(3,879)	(10,723)
Loss on lease terminations	3,724	3,338
Amortization of loan fees, mortgage debt premium and discount on debt assumed, net	2,322	2,998
Equity in loss of unconsolidated joint ventures, net	2,318	2,178
Distributions on investments in unconsolidated joint ventures	1,015	473
Payment of leasing fees	(3,165)	(2,223)
Changes in accounts receivable, net	8,486	12,118
Changes in accounts payable and accrued expenses, net	(19,926)	(18,647)
Changes in other operating assets and liabilities, net	2,159	(4,009)
Other, net	1,482	1,840
Net cash provided by operating activities	35,275	31,855
Cash flows from investing activities:		
Changes in restricted escrows, net	11,776	(5,430)
Capital expenditures and tenant improvements	(9,057)	(6,056)
Proceeds from sales of investment properties	6,369	28,335
Investment in developments in progress	(48)	(996)
Investment in unconsolidated joint ventures	(7,205)	(684)
Distributions of investments in unconsolidated joint ventures	17,098	
Other, net	22	65
Net cash provided by investing activities	18,955	15,234
Cash flows from financing activities:		
Repayments of margin debt related to marketable securities	(906)	(656)
Proceeds from mortgages and notes payable	147,909	10,424
Principal payments on mortgages and notes payable	(229,936)	(276,376)
Proceeds from credit facility	70,000	284,764
Repayments of credit facility	(25,000)	(69,111)
Payment of loan fees and deposits, net	(5,878)	(11,151)
Distributions paid, net of DRP	(19,822)	(16,420)
Other, net	(491)	(1,752)
Net cash used in financing activities	(64,124)	(80,278)
Net decrease in cash and cash equivalents	(9,894)	(33,189)
Cash and cash equivalents, at beginning of period	136,009	130,213

Cash and cash equivalents, at end of period	$	126,115	$	97,024
Supplemental cash flow disclosure, including non-cash activities:				
Cash paid for interest, net of interest capitalized	$	53,245	$	54,246
Distributions payable	$	32,169	$	28,433
Distributions reinvested	$	11,626	$	10,431
Accrued capital expenditures and tenant improvements	$	1,659	$	
Accrued offering costs	$	1,437	$	
Forgiveness of mortgage debt	$	3,879	$	10,723
Proceeds from sales of investment properties:				
Land, building and other improvements, net	$	4,856	$	19,049
Acquired lease intangibles and other assets		(10)		662
Accounts payable and other liabilities		(71)		
Deferred gains				2,505
Gain on sales of investment properties		1,594		6,119
	$	6,369	$	28,335

See accompanying notes to condensed consolidated financial statements

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RETAIL PROPERTIES OF AMERICA, INC.

Notes to Condensed Consolidated Financial Statements

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited financial statements of Retail Properties of America, Inc. (formerly Inland Western Retail Real Estate Trust, Inc.) for the fiscal year ended December 31, 2011, which are included in the Company's 2011 Annual Report on Form 10-K as certain footnote disclosures which would substantially duplicate those contained in the Annual Report have been omitted from this Quarterly Report. In the opinion of management, all adjustments necessary, all of which were of normal recurring nature, for a fair presentation have been included in this Quarterly Report.

(1) Organization and Basis of Presentation

Retail Properties of America, Inc. (the Company) was formed to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers and single-user net lease properties. The Company was initially formed on March 5, 2003 as Inland Western Retail Real Estate Trust, Inc. On March 8, 2012, the Company changed its name to Retail Properties of America, Inc.

All share amounts and dollar amounts in this Form 10-Q are stated in thousands with the exception of per share amounts and per square foot amounts.

On March 20, 2012, the Company effectuated a ten to one reverse stock split of its then outstanding common stock. Immediately following the reverse stock split, the Company redesignated all of its common stock as Class A common stock.

On March 21, 2012, the Company paid a stock dividend pursuant to which each then outstanding share of its Class A common stock received:

- one share of Class B-1 common stock; plus
- one share of Class B-2 common stock; plus
- one share of Class B-3 common stock.

These transactions are referred to as the Recapitalization. Class B-1 common stock, Class B-2 common stock and Class B-3 common stock are collectively referred to as the Company's Class B common stock, while Class A and Class B common stock are collectively referred to as the Company's common stock. The Company listed its Class A common stock on the New York Stock Exchange (NYSE) on April 5, 2012 under the symbol RPAI (the Listing). The Company's Class B common stock is identical to the Company's Class A common stock except that (i) the Company does not intend to list its Class B common stock on a national securities exchange and (ii) shares of the Company's Class B common stock will convert automatically into shares of the Company's Class A common stock at specified times. Subject to the provisions of the Company's charter, shares of Class B-1, Class B-2 and Class B-3 common stock will convert automatically into shares of the Company's Class A common stock 6 months following the Listing, 12 months following the Listing and 18 months following the Listing, respectively. On the 18 month anniversary of the Listing, all shares of the Company's Class B common stock will have converted into the Company's Class A common stock. Each share of Class A common stock and Class B common stock participates in distributions equally. All common stock share and per share data included in these condensed consolidated financial statements give retroactive effect to the Recapitalization. In addition, upon Listing, the Company's DRP and share repurchase program (SRP) were terminated.

The Company has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended, or the Code, commencing with the tax year ended December 31, 2003. The Company believes it has qualified for taxation as a REIT and, as such, the Company generally will not be subject to U.S. federal income tax on taxable income that is distributed to shareholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal income tax on its taxable income at regular corporate tax rates.

Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income, property or net worth and U.S. federal income and excise taxes on its undistributed income. The Company has one wholly-owned subsidiary that has elected to be treated as a taxable REIT subsidiary (TRS) for U.S. federal income tax purposes. A TRS is taxed on its taxable income at regular corporate tax rates. The income tax expense incurred as a result of the TRS did not have a material impact on the Company's accompanying condensed consolidated financial statements. Through the merger consummated on November 15, 2007, the Company acquired four qualified REIT subsidiaries. Their income is consolidated with REIT income for federal and state income tax purposes.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. For example, significant estimates and assumptions have been made with respect to useful lives of assets; capitalization of development and leasing costs; fair value measurements; provision for impairment, including estimates of holding periods, capitalization rates and discount rates (where applicable); provision for income taxes; recoverable amounts of receivables; deferred taxes and initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to property acquisitions. Actual results could differ from those estimates.

Certain reclassifications, primarily as a result of discontinued operations, have been made to the 2011 condensed consolidated financial statements to conform to the 2012 presentation. In addition, reclassifications primarily to condense certain captions have been made to the 2011 condensed consolidated statement of cash flows to conform to the 2012 presentation.

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RETAIL PROPERTIES OF AMERICA, INC.

Notes to Condensed Consolidated Financial Statements

The accompanying condensed consolidated financial statements include the accounts of the Company, as well as all wholly-owned subsidiaries and consolidated joint venture investments. Wholly-owned subsidiaries generally consist of limited liability companies (LLCs), limited partnerships (LPs) and statutory trusts.

The Company's property ownership as of March 31, 2012 is summarized below:

	Wholly-owned	Consolidated Joint Ventures (a)	Unconsolidated Joint Ventures (b)
Operating properties	218	55	24
Development properties	2	1	

(a)
The Company has ownership interests ranging from 50% to 77% in two LLCs or LPs.

(b)
The Company has ownership interests ranging from 20% to 96% in three LLCs or LPs.

The Company consolidates certain property holding entities and other subsidiaries in which it owns less than a 100% equity interest if it is deemed to be the primary beneficiary in a variable interest entity (VIE), an entity in which the contractual, ownership, or pecuniary interests change with changes in the fair value of the entity's net assets as defined by the Financial Accounting Standards Board (FASB). The Company also consolidates entities that are not VIEs in which it has financial and operating control in accordance with GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in real estate joint ventures in which the Company has the ability to exercise significant influence, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company's share of the income (or loss) of these unconsolidated joint ventures is included in consolidated net loss in the accompanying condensed consolidated statements of operations and other comprehensive loss.

The Company is the controlling member in various less-than-wholly-owned consolidated entities. Noncontrolling interest is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. As controlling member of these entities, the Company has an obligation to cause these property-owning entities to distribute proceeds of liquidation to the noncontrolling interest partners in these partially-owned entities only if the net proceeds received by each of the entities from the sale of assets warrant a distribution based on the terms of the underlying agreements. Some of the organizational agreements for these entities contain put/call provisions which grant the right to the outside owners and the Company to require each entity to redeem the ownership interests of the outside owners during future periods. In instances where outside ownership interests are subject to put/call arrangements requiring settlement for fixed amounts, the entity is treated as a wholly-owned subsidiary by the Company with the amount due to the outside owner reflected as a financing arrangement and included in "Other financings" in the accompanying condensed consolidated balance sheets. Interest expense is recorded on such liabilities in amounts equal to the preferential returns due to the outside owners as provided in the organizational agreements. As of March 31, 2012, there were no amounts recorded to "Other financings." In instances where outside ownership interests are subject to call arrangements without fixed settlement amounts, the entity is treated as a wholly-owned subsidiary by the Company with the amount due to the outside owners reflected as a financing and included in "Co-venture obligation" in the accompanying condensed consolidated balance sheets. Co-venture obligation expense is recorded on such liabilities in amounts equal to the preferential returns due to the outside owners as provided in the organizational agreement.

The Company evaluates the classification and presentation of the noncontrolling interests associated with the Company's consolidated joint venture investments on an ongoing basis as facts and circumstances deem necessary. The Company makes such determinations based on numerous factors, including evaluations of the terms in applicable agreements, specifically the redemption provisions. The amount at which these interests would be redeemed is based on a formula contained in each respective agreement and, as of March 31, 2012 and December 31, 2011, was determined to approximate the carrying value of these interests. Accordingly, no adjustment to the carrying value of the noncontrolling interests in the Company's consolidated joint venture investments was made during the three months ended March 31, 2012 and 2011.

In the condensed consolidated statements of operations and other comprehensive loss, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to Company shareholders and noncontrolling interests. Condensed consolidated statements of equity are included in the quarterly financial statements, including beginning balances, activity for the period and ending balances for total shareholders' equity, noncontrolling interests and total equity. Noncontrolling interests are adjusted for additional contributions by noncontrolling interest holders and distributions to noncontrolling interest holders, as well as the noncontrolling interest holders' share of the net income or loss of each respective entity.

On February 7, 2012, the Company paid a nominal amount to the partner in its Lake Mead Crossing consolidated joint venture to fully redeem the partner's ownership interest in such joint venture. The transaction resulted in an increase in the Company's ownership interest in Lake Mead Crossing from 86.7% as of December 31, 2011 to 100%.

On February 15, 2012, the Company fully redeemed the noncontrolling interests held by its partner in a consolidated limited liability company joint venture. Such redemption, reflected in the following table, was settled by transferring restricted cash as well as the Company's interest in the Britomart unconsolidated joint venture to the noncontrolling interest holder. See Note 10 for further discussion.

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RETAIL PROPERTIES OF AMERICA, INC.

Notes to Condensed Consolidated Financial Statements

Below is a table reflecting the activity of the redeemable noncontrolling interests for the three months ended March 31, 2012 and 2011:

	2012	2011
Balance at January 1,	$ 525	$ 527
Redeemable noncontrolling interest income		8
Distributions		(8)
Redemptions	(525)	
Balance at March 31,	$	$ 527

The Company is party to an agreement with an LLC formed as an insurance association captive (the Captive), which is wholly-owned by the Company and three related parties, Inland Real Estate Corporation (IREC), Inland American Real Estate Trust, Inc. (IARETI) and Inland Diversified Real Estate Trust, Inc. (IDRETI). The Captive is serviced by a related party, Inland Risk and Insurance Management Services, Inc. for a fee of $25 per quarter and was formed to insure/reimburse the members' deductible obligations for property and general liability insurance claims subject to certain limitations. The Company entered into the Captive to stabilize insurance costs, manage certain exposures and recoup expenses through the function of the captive program. It has been determined that the Captive is a VIE and because the Company does not receive the most benefit, nor the highest risk of loss, it is not considered to be the primary beneficiary. As a result, the Captive is not consolidated, but is recorded under the equity method of accounting. As of March 31, 2012 and December 31, 2011, the Company's interest in the Captive is reflected in "Investment in unconsolidated joint ventures" in the accompanying condensed consolidated balance sheets. The Company's share of net (loss) income of the Captive for the three months ended March 31, 2012 and 2011 is reflected in "Equity in loss of unconsolidated joint ventures, net" in the accompanying condensed consolidated statements of operations and other comprehensive loss.

(2) Summary of Significant Accounting Policies

There have been no changes to the Company's significant accounting policies in the three months ended March 31, 2012. Refer to the Company's 2011 Form 10-K for a summary of the Company's significant accounting policies.

Recent Accounting Pronouncements

Effective January 1, 2012, guidance on how to measure fair value and on what disclosures to provide about fair value measurements has been converged with international standards. The adoption requires additional disclosures around fair value measurement (see Note 13).

Effective January 1, 2012, public companies are required to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This guidance does not change the items that must be reported in other comprehensive income. The adoption did not have any effect on the Company's financial statements.

Effective June 30, 2012, a parent company that ceases to have a controlling financial interest in a subsidiary that is in substance real estate because that subsidiary has defaulted on its non-recourse debt will be required to use the FASB's Real Estate Sales guidance to determine whether to derecognize the in substance real estate entities. The Company does not expect the adoption will have a material effect on its financial statements.

(3) Discontinued Operations and Investment Properties Held for Sale

The Company employs a business model that utilizes asset management as a key component of monitoring its investment properties to ensure that each property continues to meet expected investment returns and standards. This strategy incorporates the sale of non-core and non-strategic assets that no longer meet the Company's criteria.

The Company sold one property during the three months ended March 31, 2012, as summarized below:

Date	Square Footage	Property Type	Location	Sales Price	Debt Extinguishment	Net Sales Proceeds	Gain

February 1, 2012	13,800	Single-user retail	Jacksonville, Florida	$ 5,800	$	$ 5,702	$ 915

The Company also received net proceeds of $667 and recorded gains of $679 from condemnation awards and earnouts. The aggregate net proceeds from the property sale and additional transactions during the three months ended March 31, 2012 totaled $6,369 with aggregate gains of $1,594.

During the year ended December 31, 2011, the Company sold 11 properties, two of which were sold during the three months ended March 31, 2011. The dispositions and additional transactions, including condemnation awards and earnouts, during the three months ended March 31, 2011 resulted in net sales proceeds of $28,335 and gain on sales of $6,119.

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RETAIL PROPERTIES OF AMERICA, INC.

Notes to Condensed Consolidated Financial Statements

The Company does not allocate general corporate interest expense to discontinued operations. The results of operations for the three months ended March 31, 2012 and 2011 for the investment properties that are accounted for as discontinued operations are presented in the table below:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues:		
Rental income	$ 35	$ 2,739
Tenant recovery income		557
Other property income	5	29
Total revenues	40	3,325
Expenses:		
Property operating expenses	(42)	164
Real estate taxes	(22)	395
Depreciation and amortization	14	1,148
General and administrative expenses		1
Interest expense		477
Other expense, net		1
Total expenses	(50)	2,186
Operating income from discontinued operations	$ 90	$ 1,139

There were no consolidated properties classified as held for sale as of March 31, 2012 or December 31, 2011.

(4) Transactions with Related Parties

The Inland Group, Inc., or the Group, and its affiliates are related parties because of the Company's relationships with Daniel L. Goodwin, Robert D. Parks and Brenda G. Gujral, each of whom are significant shareholders and/or principals of the Group or hold directorships and are executive officers of affiliates of the Group. Specifically, Mr. Goodwin is the Chairman, chief executive officer and a significant shareholder of the Group. Mr. Parks is a principal and significant shareholder of the Group. Messrs. Goodwin and Parks and Ms. Gujral hold a variety of positions as directors and executive officers of Group affiliates. With respect to the Company, as of March 31, 2012, Mr. Goodwin was a beneficial owner of approximately 5.0% of the Company's common stock (upon Listing on April 5, 2012, he owned approximately 4.3%), Mr. Parks was a director and Chairman of the Company's board of directors until October 12, 2010 and Ms. Gujral is currently one of the Company's directors and has held this directorship since 2003. Due to these relationships, transactions involving the Group and/or its affiliates are set forth below.

	For the Three Months Ended March 31,			Unpaid Amount as of		
Related Party Agreements	**2012**	**2011**		**March 31, 2012**	**December 31, 2011**	
Investment advisor	$ 63	$ 71		$ 45	$ 22	
Loan servicing	41	52		13		
Legal	81	82		114	110	
Computer services	319	336	(a)	205	323	(d)
Office and facilities management services	10	138	(b)	15	129	(e)
Other service agreements	180	242	(c)		130	(f)
Office rent and reimbursements	237	242		343	310	
Total	$ 931	$ 1,163		$ 735	$ 1,024	

(a) Amount includes $61 representing reimbursement of third-party costs.

(b) Amount includes $116 representing reimbursement of third-party costs.

(c) Amount includes $95 representing reimbursement of third-party costs.

(d) Amount includes $39 representing reimbursement of third-party costs.

(e) Amount includes $107 representing reimbursement of third-party costs.

(f) Amount includes $130 representing reimbursement of third-party costs.

Effective January 1, 2012, the Company and the Group initiated a self-funded group medical benefits plan for their respective employees (see Note 14).

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On December 1, 2009, the Company raised additional capital of $50,000 from a related party, Inland Equity Investors, LLC (Inland Equity), in exchange for a 23% noncontrolling interest in IW JV 2009, LLC (IW JV). IW JV, which is controlled by the Company, and therefore consolidated, is managed and operated by the Company. Inland Equity is owned by certain individuals, including Daniel L. Goodwin and Robert D. Parks. Pursuant to the terms of the IW JV agreement, Inland Equity earns a preferred return of 6% annually, paid monthly and cumulative on any unpaid balance. Inland Equity earns an additional 5% annually, set aside monthly and paid quarterly, if the portfolio net income is above a target amount as specified in the agreement. If Inland Equity retains an ownership interest in IW JV through the liquidation of the joint venture, Inland Equity may be entitled to receive an additional distribution of $5,000, depending on the availability of proceeds at the time of liquidation. The independent directors committee reviewed and recommended approval of this transaction to the Company's board of directors. Pursuant to the terms and conditions of the IW JV organizational documents, on March 20, 2012, the Company provided written notice of its intention to repurchase Inland Equity's interest in IW JV. On April 26, 2012, the Company paid $55,397, representing the agreed upon repurchase price and accrued but unpaid preferred return, to Inland Equity to repurchase their 23% in IW JV, resulting in the Company owning 100% of IW JV.

(5) Marketable Securities

The following tables summarize the Company's investment in marketable securities as of March 31, 2012 and December 31, 2011:

	Common Stock	Preferred Stock	Total Available-for-Sale Securities
As of March 31, 2012:			
Fair value	$ 14,364	$ 21,007	$ 35,371
Amortized cost basis	28,997	38,242	67,239
Total other-than-temporary impairment recognized	(23,889)	(31,308)	(55,197)
Adjusted cost basis	5,108	6,934	12,042
Net gains in accumulated other comprehensive income (OCI)	9,256	14,166	23,422
Net losses in accumulated OCI		(93) (a)	(93)
As of December 31, 2011:			
Fair value	$ 11,550	$ 18,835	$ 30,385
Amortized cost basis	28,997	38,242	67,239
Total other-than-temporary impairment recognized	(23,889)	(31,308)	(55,197)
Adjusted cost basis	5,108	6,934	12,042
Net gains in accumulated other comprehensive income (OCI)	6,615	11,942	18,557
Net losses in accumulated OCI	(173) (b)	(41) (c)	(214)

(a) This amount represents the gross unrealized losses of one preferred stock security with a fair value of $78 as of March 31, 2012. This security had been in a continuous unrealized loss position for less than 12 months as of March 31, 2012.

(b) This amount represents the gross unrealized losses of one common stock security with a fair value of $765 as of December 31, 2011. This security had been in a continuous unrealized loss position for less than 12 months as of December 31, 2011.

(c) This amount represents the gross unrealized losses of one preferred stock security with a fair value of $130 as of December 31, 2011. This security had been in a continuous unrealized loss position for less than 12 months as of December 31, 2011.

The following table summarizes activity related to the Company's marketable securities for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	**2011**
Net unrealized OCI gain	$ 4,986	$ 2,563

(6) Compensation Plans

The Company's Equity Compensation Plan (Equity Plan), subject to certain conditions, authorizes the issuance of stock options, restricted stock, stock appreciation rights and other similar awards to the Company's employees in connection with compensation and incentive arrangements that may be established by the Company's board of directors.

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A summary of the status of unvested restricted shares, all of which were granted to the Company's executives, for the three months ended March 31, 2012:

	Unvested Restricted Shares	Weighted Average Grant Date Fair Value per Restricted Share
Balance at January 1, 2012	14	$ 17.13
Shares granted (a)	32	17.38
Shares vested		
Shares forfeited		
Balance at March 31, 2012	46	$ 17.30

(a) Of the shares granted, 50% vest on each of the third and fifth anniversaries of the grant date.

During the three months ended March 31, 2012 and 2011, the Company recorded compensation expense of $65 and $2, respectively, related to unvested restricted shares. As of March 31, 2012, total unrecognized compensation expense related to unvested restricted shares was $661, which is expected to be amortized over a weighted average term of 3.6 years.

The Company's Independent Director Stock Option Plan (Option Plan), as amended, provides, subject to certain conditions, for the grant to each independent director of options to acquire shares following their becoming a director and for the grant of additional options to acquire shares on the date of each annual shareholders' meeting. As of March 31, 2012 and 2011, options to purchase 70 and 56 shares of common stock, respectively, had been granted, of which options to purchase one share had been exercised and none had expired.

The Company calculates the per share weighted average fair value of options granted on the date of the grant using the Black-Scholes option pricing model utilizing certain assumptions regarding the expected dividend yield (3.56%), risk-free interest rate (1.14%), expected life (five years) and expected volatility (30%). Compensation expense of $14 and $16 related to these stock options was recorded during the three months ended March 31, 2012 and 2011, respectively.

(7) Leases

The majority of revenues from the Company's properties consist of rents received under long-term operating leases. Some leases provide for the payment of fixed base rent paid monthly in advance, and for the reimbursement by tenants to the Company for the tenant's pro rata share of certain operating expenses including real estate taxes, special assessments, insurance, utilities, common area maintenance, management fees and certain building repairs paid by the landlord and recoverable under the terms of the lease. Under these leases, the landlord pays all expenses and is reimbursed by the tenant for the tenant's pro rata share of recoverable expenses paid. Certain other tenants are subject to net leases which provide that the tenant is responsible for fixed base rent, as well as all costs and expenses associated with occupancy. Under net leases, where all expenses are paid directly by the tenant rather than the landlord, such expenses are not included in the accompanying condensed consolidated statements of operations and other comprehensive loss. Under net leases where all expenses are paid by the landlord, subject to reimbursement by the tenant, the expenses are included in "Property operating expenses" and reimbursements are included in "Tenant recovery income" in the accompanying condensed consolidated statements of operations and other comprehensive loss.

In certain municipalities, the Company is required to remit sales taxes to governmental authorities based upon the rental income received from properties in those regions. These taxes may be reimbursed by the tenant to the Company depending upon the terms of the applicable tenant lease. As with other recoverable expenses, the presentation of the remittance and reimbursement of these taxes is on a gross basis whereby sales tax expenses are included in "Property operating expenses" and sales tax reimbursements are included in "Other property income" in the accompanying condensed consolidated statements of operations and other comprehensive loss. Such taxes remitted to governmental authorities and reimbursed by tenants, exclusive of amounts attributable to discontinued operations, were $492 and $507 for the three months ended March 31, 2012 and 2011, respectively.

At certain properties that lease space to larger tenants, other tenants may have co-tenancy provisions within their leases that provide a right of termination or reduced rent if certain large tenants or "shadow" tenants discontinue operations. The Company does not expect that such co-tenancy provisions will have a material impact on the future operating results.

The Company leases land under non-cancellable operating leases at certain of its properties expiring in various years from 2018 to 2105. The related ground lease rent expense is included in "Property operating expenses" in the accompanying condensed consolidated statements of operations and other comprehensive loss. In addition, the Company leases office space for certain management offices from third parties and subleases its corporate office space from an Inland affiliate. In the accompanying condensed consolidated statements of operations and other comprehensive loss, office rent expense related to property management operations is included in "Property operating expenses" and office rent expense related to corporate office operations is included in "General and administrative expenses".

	Three Months Ended March 31,	
	2012	**2011**
Ground lease rent expense	$ 2,518	$ 2,527
Office rent expense related party	$ 124	$ 124
Office rent expense third party	$ 87	$ 86

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(8) Mortgages and Notes Payable

The following table summarizes the Company's mortgages and notes payable at March 31, 2012 and December 31, 2011: