NEW PLAN EXCEL REALTY TRUST INC
Form 10-Q
November 07, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

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 1-12244

NEW PLAN EXCEL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

MARYLAND (State or other Jurisdiction of Incorporation)	**33-0160389** (IRS Employer Identification No.)

420 Lexington Avenue, New York, New York 10170

(Address of Principal Executive Offices) (Zip Code)

212-869-3000

(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, 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ý **NO** o

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

YES o **NO** ý

The number of shares of common stock of the Registrant outstanding on October 27, 2005 was 104,226,595.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by New Plan Excel Realty Trust, Inc. (we or the Company), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations which may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to:

national or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from economic downturns;

the competitive environment in which we operate;

property ownership and management risks;

financial risks, such as the inability to obtain debt or equity financing on favorable terms;

possible future downgrades in our credit rating;

the level and volatility of interest rates and changes in the capitalization rates with respect to the acquisition and disposition of properties;

financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws;

the ability to maintain our status as a REIT for federal income tax purposes;

governmental approvals, actions and initiatives;

environmental/safety requirements and costs;

risks of real estate acquisition and development, including the failure of pending developments and redevelopments to be completed on time and within budget and the failure of newly acquired or developed properties to perform as expected;

risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns;

risks of joint venture activities; and

other risks identified in this Quarterly Report on Form 10-Q and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC) or in other documents that we publicly disseminate.

We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2005 and 2004

(In thousands, except per share amounts)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(Unaudited)		(Unaudited)	
Revenues:				
Rental income	$ 89,398	$ 95,581	$ 288,438	$ 282,384
Percentage rents	893	1,202	4,940	4,914
Expense reimbursements	22,466	22,555	76,678	71,383
Fee income	3,228	1,406	6,153	3,965
Total revenues	115,985	120,744	376,209	362,646
Operating Expenses:				
Operating costs	17,737	18,628	60,170	59,712
Real estate taxes	15,192	15,868	49,748	45,311
Depreciation and amortization	21,875	22,589	71,071	64,290
Provision for doubtful accounts	4,520	2,408	9,247	6,584
General and administrative	10,166	4,483	20,141	14,647
Total operating expenses	69,490	63,976	210,377	190,544
Income before real estate sales, impairment of real estate, minority interest and other income and expenses	46,495	56,768	165,832	172,102
Other income and expenses:				
Interest, dividend and other income	1,837	769	3,574	2,593
Equity in income of unconsolidated ventures	755	314	1,885	1,103
Interest expense	(39,554)	(26,150)	(95,062)	(79,087)
Gain on sale of real estate	186,942		186,942	1,217
Impairment of real estate	(859)		(859)	(43)
Minority interest in income of consolidated partnership and joint ventures	(4,359)	(203)	(5,775)	(939)
Income from continuing operations	191,257	31,498	256,537	96,946
Discontinued operations:				
Income (loss) from discontinued operations (Note 5)	4,788	(2,057)	18,892	2,810
Net income	$ 196,045	$ 29,441	$ 275,429	$ 99,756
Preferred dividends	(5,475)	(5,458)	(16,413)	(16,008)
Net income available to common stock basic	190,570	23,983	259,016	83,748
Minority interest in income of consolidated partnership	4,359	206	4,892	751
Net income available to common stock diluted	$ 194,929	$ 24,189	$ 263,908	$ 84,499
Basic earnings per common share:				

Income from continuing operations	$ 1.79	$ 0.26	$ 2.33	$ 0.81
Discontinued operations	0.05	(0.02)	0.18	0.03
Basic earnings per share	$ 1.84	$ 0.24	$ 2.51	$ 0.84
Diluted earnings per common share:				
Income from continuing operations	$ 1.78	$ 0.25	$ 2.30	$ 0.79
Discontinued operations	0.04	(0.02)	0.18	0.03
Diluted earnings per share	$ 1.82	$ 0.23	$ 2.48	$ 0.82
Average shares outstanding basic	103,460	101,255	103,157	100,281
Average shares outstanding diluted	106,835	103,658	106,623	102,626
Dividends per common share, excluding Special Dividend (Note 10)	$ 0.4125	$ 0.4125	$ 1.2375	$ 1.2375
Other comprehensive income:				
Net income	$ 196,045	$ 29,441	$ 275,429	$ 99,756
Unrealized (loss) gain on available-for-sale securities	(384)	325	(59)	169
Unrealized gain on deferred compensation	27		51	
Realized (loss) gain on interest risk hedges, net	(9,237)	40	(11,516)	121
Unrealized gain (loss) on interest risk hedges, net	9,286	(9,640)	8,495	(8,091)
Comprehensive income	$ 195,737	$ 20,166	$ 272,400	$ 91,955

The accompanying notes are an integral part of the consolidated financial statements.

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2005 and December 31, 2004

(In thousands, except fractions, percentages and par value amounts)

	September 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Real estate:		
Land	$ 709,562	$ 897,411
Building and improvements	2,604,610	3,090,779
Accumulated depreciation and amortization	(362,058)	(428,427)
Net real estate	2,952,114	3,559,763
Real estate held for sale	63,926	20,835
Cash and cash equivalents	5,944	7,292
Restricted cash	19,094	22,379
Marketable securities	3,375	3,433
Receivables:		
Trade, net of allowance for doubtful accounts of $30,070 and $24,239 at September 30, 2005 and December 31, 2004, respectively	21,105	31,043
Deferred rent, net of allowance of $1,920 and $3,548 at September 30, 2005 and December 31, 2004, respectively	28,854	31,931
Other, net	19,585	18,627
Mortgages and notes receivable	821	8,881
Prepaid expenses and deferred charges	47,026	47,646
Investments in/advances to unconsolidated ventures	71,244	31,888
Intangible assets	77,156	32,085
Other assets	23,689	15,939
Total assets	$ 3,333,933	$ 3,831,742
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgages payable, including unamortized premium of $14,613 and $20,400 at September 30, 2005 and December 31, 2004, respectively	$ 437,203	$ 551,522
Notes payable, net of unamortized discount of $5,042 and $4,723 at September 30, 2005 and December 31, 2004, respectively	968,699	970,563
Credit facilities	185,000	446,000
Capital leases	27,972	28,234
Dividends payable	37,960	47,698
Other liabilities	128,012	105,269
Tenant security deposits	10,879	11,511
Total liabilities	1,795,725	2,160,797
Minority interest in consolidated partnership and joint ventures	43,206	30,784
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 25,000 shares authorized; Series D: 1,500 depositary shares, each representing 1/10 of one share of Series D Cumulative Voting Step-Up Premium Rate Preferred, 150 shares issued and outstanding at September 30, 2005	10	10

and December 31, 2004; Series E: 8,000 depositary shares, each representing 1/10 of one share of 7.625% Series E Cumulative Redeemable Preferred, 800 shares issued and outstanding at September 30, 2005 and December 31, 2004				
Common stock, $.01 par value, 250,000 shares authorized; 104,129 and 102,845 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively		1,041		1,028
Additional paid-in capital		2,033,092		2,005,977
Accumulated other comprehensive loss		(8,060)		(5,031)
Accumulated distribution in excess of net income		(531,081)		(361,823)
Total stockholders equity		1,495,002		1,640,161
Total liabilities and stockholders equity	$	3,333,933	$	3,831,742

The accompanying notes are an integral part of the consolidated financial statements.

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine months ended September 30, 2005 and 2004

(Unaudited, in thousands)

	September 30, 2005	September 30, 2004
Cash flows from operating activities:		
Net income	$ 275,428	$ 99,756
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	73,997	68,048
Amortization of net premium/discount on mortgages and notes payable	(6,642)	(2,076)
Amortization of deferred debt and loan acquisition costs	1,974	2,244
Amortization of stock options	1,905	569
Interest on swaps	240	
Gain on sale of real estate, net	(186,942)	(1,217)
Gain on sale of discontinued operations, net	(14,677)	2,648
Minority interest in income of consolidated partnership	5,775	941
Impairment of real estate assets	859	131
Equity in income of unconsolidated ventures	(1,886)	(1,103)
Distributions of income from unconsolidated ventures	2,436	
Changes in operating assets and liabilities, net:		
Change in restricted cash	3,284	1,819
Change in trade receivables	9,948	8,682
Change in deferred rent receivables	(3,358)	(5,122)
Change in other receivables	(959)	(5,066)
Change in other liabilities	20,835	13,583
Change in tenant security deposits	(667)	49
Change in sundry assets and liabilities	(3,564)	(4,567)
Net cash provided by operating activities	177,986	179,319
Cash flows from investing activities:		
Real estate acquisitions and building improvements	(115,927)	(83,509)
Acquisition, net of cash and restricted cash received	(124,652)	(155,861)
Proceeds from real estate sales, net	984,131	39,020
Advances for mortgage notes receivable, net		(8,449)
Repayments of mortgage notes receivable	11,775	26,543
Leasing commissions paid	(8,816)	(8,592)
Cash paid for asset management fee stream	(18,500)	
Cash paid for property management rights	(22,251)	
Cash from joint venture consolidation (Note 2)		844
Cash paid for joint venture investment	(5,441)	(9,748)
Proceeds from sale of joint venture interest	11,400	3,870
Capital contributions to unconsolidated ventures	(48,482)	(3,734)
Distributions of capital from unconsolidated ventures	4,778	8,561
Net cash provided by (used in) investing activities	668,015	(191,055)
Cash flows from financing activities:		
Principal payments of mortgages and notes payable	(136,591)	(37,862)
Proceeds from public debt offering	349,044	149,114
Repayment of public debt	(350,000)	

Cash received from rate lock swap				1,554
Cash paid for settlement of a reverse arrears swap		(11,945)		(1,275)
Proceeds from credit facility borrowing		430,000		310,000
Repayment of credit facility		(691,000)		(333,000)
Financing fees		(3,703)		(4,988)
Distributions paid to minority partners		(6,769)		(3,273)
Proceeds from common stock offering				49,640
Dividends paid		(453,836)		(133,466)
Proceeds from exercise of stock options		7,601		15,297
Repayment of loans receivable for the purchase of common stock		119		270
Proceeds from dividend reinvestment plan		19,731		3,377
Net cash (used in) provided by financing activities		(847,349)		15,388
Net (decrease) increase in cash and cash equivalents		(1,348)		3,652
Cash and cash equivalents at beginning of period		7,292		5,328
Cash and cash equivalents at end of period	$	5,944	$	8,980
Supplemental Cash Flow Disclosure, including Non-Cash Activities:				
Cash paid for interest	$	110,705	$	81,418
Capitalized interest		5,174		4,603
State and local taxes paid		(35)		399
Mortgages assumed in acquisition		27,797		61,872
Partnership units issued in acquisition		14,547		19,989
Satisfaction of notes receivable				15,091

The accompanying notes are an integral part of the consolidated financial statements.

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Description of Business

New Plan Excel Realty Trust, Inc. (together with its subsidiaries, the Company) is operated as a self-administered, self-managed real estate investment trust (REIT). The principal business of the Company is the ownership and management of community and neighborhood shopping centers throughout the United States.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Excel Realty Partners, L.P. (ERP), a Delaware limited partnership (Note 8), and certain of the Company s joint ventures, in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). All significant intercompany transactions and balances have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules of the SEC and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (GAAP). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2005 are not necessarily indicative of the results expected for the full fiscal year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s latest annual report on Form 10-K.

Net Earnings per Share of Common Stock

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (SFAS No. 128), the Company presents both basic and diluted earnings per share. Net earnings per common share (basic EPS) is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Net earnings per share of common stock assuming dilution (diluted EPS) is computed by giving effect to all dilutive potential shares of common stock that were outstanding during the period. Dilutive potential shares of common stock consist of the incremental shares of common stock issuable upon (a) the conversion of (i) preferred stock (using the if converted method), (ii) ERP limited partnership units, (iii) convertible senior notes, (iv) restricted stock grants and (v) contingent compensation awards and (b) the exercise of in-the-money stock options.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid debt instruments with maturities of three months or less at acquisition. Items classified as cash equivalents include insured bank certificates of deposit and commercial paper. At times, cash balances at a limited number of banks may exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions.

Restricted Cash

Restricted cash consists primarily of cash held in escrow accounts for deferred maintenance, capital improvements, environmental expenditures, taxes, insurance, operating expenses and debt service as required by certain loan agreements. Substantially all restricted cash is invested in money market mutual funds and carried at market value.

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of $30.1 million and $24.2 million as of September 30, 2005 and December 31, 2004, respectively. The Company makes estimates of the uncollectability of its accounts receivable related to base rents, expense reimbursements and other revenues. The Company analyzes accounts receivable and historical bad debt levels, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

Real Estate

Land, buildings and building and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives; ordinary repairs and maintenance are expensed as incurred. Land, buildings and building and tenant improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction costs, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development are capitalized. The Company ceases capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	35 to 40 years
Building Improvements	5 to 40 years
Tenant Improvements	The shorter of the term of the related lease or useful life

Business Combinations

In connection with the Company s acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and buildings and tenant improvements, are determined as if vacant, i.e., at replacement cost. Intangible assets, including the above-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values. The below-market value of leases is recorded in Other liabilities.

Above-market, below-market and in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition and (ii) management s estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market or below-market lease value is amortized as a reduction of, or increase to, rental income over the remaining non-cancelable term of each lease, plus any renewal periods with fixed rental terms that are considered to be below-market.

The total amount of other intangible assets allocated to in-place lease values and tenant relationship intangible values is based on management s evaluation of the specific characteristics of each lease and the Company s overall relationship with each tenant. Factors considered in the allocation of these values include, but are not limited to, the nature of the existing relationship with the tenant, the tenant s credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management will also consider information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management s assessment of specific market conditions. Management will estimate costs required to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of a property. Independent appraisals and/or management s estimates will be used to determine these values.

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is amortized to expense over the initial and renewal terms of the leases, where renewal is reasonably assured; however, no amortization period for intangible assets will exceed the remaining depreciable life of the building.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs, in-place values and tenant relationship values, will be charged as an expense.

Long-Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of its real estate properties may be impaired. A property s value is impaired only if management s estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property (taking into account the anticipated holding period of the asset) is less than the carrying value of the property. Such estimate of cash flows considers factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property, and reflected as an adjustment to the basis of the property.

When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management s opinion, the net sales price of the assets that have been identified for sale is less than the net book value of the assets, a valuation allowance is established. For investments accounted for under the equity method, a loss is recognized if the loss in value of the investment is other than temporary.

Employee Loans

Prior to 2001, the Company had made loans to officers and employees primarily for the purpose of purchasing the Company s common stock. These loans are demand and term notes bearing interest at rates ranging from 5.0% to 6.0%. Interest on such loans is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders equity. At September 30, 2005 and December 31, 2004, the Company had aggregate loans to employees of approximately $0.6 million and $0.8 million, respectively.

Deferred Leasing and Loan Origination Costs

Costs incurred in obtaining tenant leases (including internal leasing costs) are amortized using the straight-line method over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Costs incurred in obtaining long-term financing are amortized and charged to interest expense over the terms of the related debt agreements, which approximates the effective interest method.

Internal Leasing Costs

The Company capitalizes internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* Please refer to the following table for additional information regarding the capitalization of internal leasing costs (dollars in thousands).

Balance at December 31, 2003	$	7,790
Costs capitalized		2,007
Amortization		(385)
Balance at March 31, 2004		9,412
Costs capitalized		1,672
Amortization		(686)
Balance at June 30, 2004		10,398
Costs capitalized		1,511
Amortization		(454)
Balance at September 30, 2004	$	11,455
Balance at December 31, 2004	$	12,271
Costs capitalized		1,366
Amortization		(563)
Balance at March 31, 2005		13,074
Costs capitalized		1,231
Amortization		(495)
Balance at June 30, 2005		13,810
Costs capitalized		1,535
Amortization		(3,409)
Balance at September 30, 2005	$	11,936

Investments in /Advances to Unconsolidated Ventures

The Company has direct equity investments in several joint venture projects. The Company accounts for these investments in unconsolidated ventures using the equity method of accounting, as the Company exercises significant influence over, but does not control and is not the primary beneficiary of, these entities. These investments are initially recorded at cost, as Investments in/advances to unconsolidated ventures , and subsequently adjusted for equity in earnings and cash contributions and distributions.

Intangible Assets

The Company s intangible assets, other than those acquired in business combinations, include property management rights and an asset management fee stream. These assets were initially measured based on their fair values and are being amortized on a straight-line basis over a period of 20 to 40 years. These assets are stated at cost, net of accumulated amortization.

Derivative/Financial Instruments

The Company accounts for derivative and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These accounting standards require the Company to measure derivatives, including certain derivatives embedded in other contracts, at fair value and to recognize them in the Consolidated Balance Sheets as assets or liabilities, depending on the Company s rights or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging instruments, and ineffective portions of hedges, are recognized in earnings in the current period.

Self-Insured Health Plan

Beginning in May 2003, the Company implemented a self-insured health plan for all of its employees. In order to limit its exposure under the plan, the Company has purchased stop-loss insurance, which will reimburse the Company for individual claims in excess of $0.1 million annually, or aggregate claims in excess of $1.0 million annually. Self-insurance losses are accrued based on the Company s estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions adhered to in the insurance industry. The liability for self-insured losses is included in accrued expenses and was approximately $0.8 million and $0.7 million at September 30, 2005 and December 31, 2004, respectively.

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as deferred rent receivable on the accompanying Consolidated Balance Sheets. Certain leases provide for percentage rents based upon the level of sales achieved by the lessee. These percentage rents are recorded once the required sales levels are achieved. The leases also typically provide for tenant reimbursement of common area maintenance and other operating expenses.

Income from Discontinued Operations

Income from discontinued operations is computed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). SFAS No. 144 requires, among other things, that the primary assets and liabilities of the Company and the results of operations of the Company s real property that has been sold during 2002 or thereafter, or otherwise qualify as held for sale (as defined by SFAS No. 144), be classified as discontinued operations and segregated in the Company s Consolidated Statements of Income and Comprehensive Income and Consolidated Balance Sheets. Properties classified as real estate held for sale generally represent properties that are under contract for sale and are expected to close within the next twelve months.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). In order to maintain its qualification as a REIT, the Company is required to, among other things, distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to the portion of its income that meets certain criteria and is distributed annually to the stockholders. Accordingly, no provision for federal income taxes is included in the accompanying consolidated financial statements. The Company intends to continue to operate in a manner that allows it to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to federal income tax. The

Company is subject to certain state and local taxes. Provision for such taxes has been included in general and administrative expenses in the Company s Consolidated Statements of Income and Comprehensive Income.

The Company may elect to treat one or more of its subsidiaries as a taxable REIT subsidiary (TRS). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRSs. At September 30, 2005, the Company s TRSs had a tax net operating loss (NOL) carryforward of approximately $12.5 million, expiring from 2015 to 2018.

Segment Information

The principal business of the Company is the ownership and management of community and neighborhood shopping centers. The Company does not distinguish or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single reportable segment for disclosure purposes in accordance with GAAP. Further, all of the Company s operations and assets are within the United States and no tenant comprises more than 5% of rental income.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant assumptions and estimates relate to impairments of real estate, recovery of mortgage notes and trade accounts receivable and depreciable lives.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

Recently Issued Accounting Standards

In May 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3* (SFAS No. 154). SFAS No. 154 replaces Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance where the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, but early adoption is permitted. The adoption of SFAS No. 154 is not expected to have a material impact on the consolidated financial statements of the Company.

In December 2004, the FASB issued Statement 123(R), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) amends Statement 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and APB Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25). SFAS No. 123(R) also establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date, and to recognize such cost over the period during which the employee is required to provide such services. SFAS No. 123(R), as modified on April 14, 2005, is effective as of the first annual reporting period that begins after June 15, 2005. The adoption of SFAS No. 123(R) is not expected to have a material impact on the consolidated financial statements of the Company.

Note 3: Acquisitions and Dispositions

Acquisitions

During the nine months ended September 30, 2005, the Company acquired six shopping centers (Brunswick Town Center, Hillcrest Shopping Center, West Ridge Shopping Center, Market Plaza, Surrey Square Mall and Fashion Place Shopping Center), a vacant building with 2.5 acres of land immediately adjacent to Midway Crossing (a shopping center owned by the Company), six land parcels, the remaining 90% interest in Marketplace at Wycliffe, a shopping center in which the Company owned the other 10% interest, and the remaining 90% interest in Mableton Walk, a shopping center in which the Company owned the other 10% interest (collectively, the 2005 Acquisitions). Please refer to the following table for additional details (dollars in millions).

					Purchase Price Components		
Property Name	**Location**	**Acquisition Date**	**Gross Leasable Area**	**Purchase Price**	**ERP Units**	**Assumed Debt**	**Cash**
Building at Midway Crossing	Elyria, OH	01/13/05	20,338(1)	$ 1.1			$ 1.1
Brunswick Town Center	Brunswick, OH	01/21/05	122,989	$ 16.4			$ 16.4
Hillcrest Shopping Center	Spartanburg, SC	02/16/05	341,982	$ 35.5	$ 14.5	$ 16.8	$ 4.2
West Ridge Shopping Center	Westland, MI	03/17/05	163,131	$ 16.6		$ 11.0	$ 5.6
Marketplace at Wycliffe (2) (3)	Lake Worth, FL	06/01/05	133,520	$ 35.7			$ 35.7
Mableton Walk (2)	Mableton, GA	06/01/05	105,742				
Market Plaza	Plano, TX	07/13/05	161,453	$ 39.6			$ 39.6
Surrey Square Mall	Norwood, OH	08/26/05	192,388	$ 10.5			$ 10.5
Five land parcels adjacent to Home Depot Stores	FL, LA, OH	09/07/05	40 acres	$ 9.3			$ 9.3
Fashion Place Shopping Center	Columbia, SC	09/14/05	149,493	$ 6.8			$ 6.8
Brandt Pike Place	Dayton, OH	09/30/05	11 acres	$ 1.6			$ 1.6
	Total			$ 173.1	$ 14.5	$ 27.8	$ 130.8

(1) Also includes 2.5 acres of land.

(2) Property acquired as a component of a multi-property transaction. Purchase price and cash listed for Marketplace at Wycliffe represent the combined amounts for the acquisition of 100% interests in Marketplace at Wycliffe and Mableton Walk.

(3) On August 10, 2005, this property was sold as part of the Galileo Transactions (as defined below).

During fiscal 2004, the Company acquired 11 shopping centers (New Britain Village Square, Elk Grove Town Center, Villa Monaco, Florence Square, Stockbridge Village, Starlite Plaza, Village Center, Annex of Arlington, Marketplace, Silver Pointe, and The Shoppes at Southside), 11 acres of unimproved land known as Unity Plaza, the remaining 50% interest in Clearwater Mall, a shopping center in which the Company owned the other 50% interest, and the remaining 50% interest in The Market at Preston Ridge, a shopping center in which the Company owned the other 50% interest (collectively, the 2004 Acquisitions). Please refer to the following table for additional details (dollars in millions).

Property Name	Location	Acquisition Date	Gross Leasable Area	Purchase Price	Purchase Price Components: ERP Units	Purchase Price Components: Assumed Debt	Purchase Price Components: Cash
New Britain Village Square	Chalfont, PA	01/09/04	143,716	$ 23.4	$ 11.2	$ 12.2(1)	
Clearwater Mall *	Clearwater, FL	01/30/04	285,519	$ 30.0			$ 30.0
Elk Grove Town Center	Elk Grove Village, IL	01/30/04	131,849	$ 21.0		$ 14.5	$ 6.5
Villa Monaco	Denver, CO	02/19/04	122,213	$ 12.0			$ 12.0
Florence Square	Florence, KY	03/17/04	361,251	$ 39.5		$ 15.8	$ 23.7
Unity Plaza	East Fishkill, NY	04/28/04	11 acres	$ 6.0			$ 6.0
Stockbridge Village	Stockbridge, GA	04/29/04	188,203	$ 23.8			$ 23.8
Starlite Plaza	Sylvania, OH	07/22/04	222,450	$ 16.8			$ 16.8
Village Center	Smithtown, NY	08/19/04	97,401	$ 16.8		$ 4.4	$ 12.4
Annex of Arlington	Arlington Heights, IL	08/26/04	197,328	$ 27.2		$ 17.9	$ 9.3
Marketplace	Tulsa, OK	09/01/04	186,851	$ 18.0	$ 8.8	$ 9.2	
The Market at Preston Ridge *	Frisco, TX	09/01/04	50,326	$ 5.2			$ 5.2
Silver Pointe	Fenton, MI	11/23/04	86,141	$ 10.2		$ 7.2	$ 3.0
The Shoppes at Southside	Jacksonville, FL	12/10/04	109,113	$ 25.0			$ 25.0
	Total			$ 274.9	$ 20.0	$ 81.2	$ 173.7

* The Company acquired the remaining 50% interest in the property in which the Company owned the other 50% interest.

(1) Represents the assumption of a mortgage loan previously made by the Company to the seller.

In connection with the above acquisitions, and in compliance with the Company s business combination policy, the Company maintained the following balances as of September 30, 2005 and December 31, 2004 (in thousands):

September 30, 2005	Total Cost	Accumulated Amortization	Deferred Costs, net
In-place lease value, legal fees and leasing commissions	$ 42,360	$ (7,969)	$ 34,391
Above market leases acquired	4,247	(402)	3,845
Below market leases acquired	(5,708)	746	(4,962)
Total	$ 40,899	$ (7,625)	$ 33,274

December 31, 2004	Total Cost	Accumulated Amortization	Deferred Costs, net
In-place lease value, legal fees and leasing commissions	$ 35,235	$ (3,512)	$ 31,723
Above market leases acquired	1,713	(267)	1,446
Below market leases acquired	(1,396)	312	(1,084)
Total	$ 35,552	$ (3,467)	$ 32,085

Dispositions

Portfolio Disposition

On August 10, 2005, the Company sold an aggregate of 69 community and neighborhood shopping centers (the Galileo Properties) to Galileo America LLC for aggregate gross proceeds of approximately $968.0 million, comprised of approximately $928.2 million in cash and approximately $39.8 million of equity in Galileo America LLC (the Property Transfer). The Company has the right to receive up to an additional $12.0 million in cash based upon the performance of the Galileo Properties during the 18-month period following the closing of the Property Transfer.

A series of related transactions occurred simultaneously with the closing of the Property Transfer, resulting in the Company owning an approximate 5% equity interest in Galileo America LLC, which included (i) the redemption by Galileo America LLC of an existing interest in Galileo America LLC held by CBL & Associates Properties, Inc. (CBL) for two properties previously owned by Galileo America LLC, (ii) the purchase by the Company of an asset management fee stream from Galileo America LLC for $18.5 million and (iii) the acquisition by the Company of the property management rights of CBL with respect to Galileo America LLC for $22.0 million (plus an agreement to purchase additional property management rights in 2008 for $7.0 million) (such transactions are referred to collectively with the Property Transfer as the Galileo Transactions).

As a result of the Company s retained 5% ownership interest in Galileo America LLC, as well as the Company s purchase of the property and asset management rights as part of the Galileo Transactions, the results of operations of the Galileo Properties up to August 10, 2005 were not classified as income from discontinued operations and are included in income from continuing operations.

Other Dispositions

During the nine months ended September 30, 2005, the Company also sold seven properties and three land parcels for aggregate gross proceeds of approximately $28.1 million. In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5).

During 2004, the Company sold 14 properties, two outparcels, one land parcel and 90% of its ownership interest in Villa Monaco for aggregate gross proceeds of approximately $57.9 million, including approximately $8.5 million represented by a purchase money note issued in connection with the sale of Factory Merchants Barstow (the purchase money note was repaid in full in early 2005). In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5).

Note 4: Real Estate Held for Sale

As of September 30, 2005, five shopping centers, one miscellaneous property and four land parcels were classified as Real estate held for sale. These properties are located in eight states and have an aggregate gross leasable area of approximately 1.5 million square feet. Such properties had an aggregate book value of approximately $63.9 million, net of accumulated depreciation of approximately $13.4 million, as of September 30, 2005. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any properties classified as held for sale as income from discontinued operations (Note 5).

As of December 31, 2004, four retail properties and one land parcel were classified as Real estate held for sale. These properties are located in five states and have an aggregate gross leasable area of approximately 0.4 million square feet. Such properties had an aggregate book value of approximately $20.8 million, net of accumulated depreciation of approximately $3.2 million, as of December 31, 2004. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any properties classified as held for sale as income from discontinued operations (Note 5).

Note 5: Income (Loss) from Discontinued Operations

The following is a summary of income (loss) from discontinued operations for the three and nine months ended September 30, 2005 and 2004 (dollars in thousands):

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Total revenue				
Real estate held for sale	$ 2,829	$ 2,640	$ 8,406	$ 8,489
Other discontinued operations	284	2,088	1,720	7,363
Total revenue	$ 3,113	$ 4,728	$ 10,126	$ 15,852
Operating costs				
Real estate held for sale	(739)	(796)	(2,421)	(2,517)
Other discontinued operations	(46)	(653)	(449)	(2,247)
Real estate taxes				
Real estate held for sale	(34)	(278)	(626)	(825)
Other discontinued operations	(46)	(281)	(341)	(843)
Interest expense				
Real estate held for sale				
Other discontinued operations		(58)	(5)	(174)
Depreciation and amortization				
Real estate held for sale	(347)	(690)	(1,312)	(1,367)
Other discontinued operations	(50)	(281)	(443)	(1,060)
Provision for doubtful accounts				
Real estate held for sale	(50)	(372)	(415)	(518)
Other discontinued operations	9	(194)	105	(752)
General and Administrative				
Real estate held for sale	(1)	(1)	(3)	(3)
Other discontinued operations				
Total operating costs	(1,304)	(3,604)	(5,910)	(10,306)
Income from discontinued operations before impairment and gain on sale	1,809	1,124	4,216	5,546
Gain (loss) on sale of other discontinued operations (1)	2,979	(3,093)	14,676	(2,648)
Impairment of other discontinued operations		(88)		(88)
Income (loss) from discontinued operations	$ 4,788	$ (2,057)	$ 18,892	$ 2,810

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(1) For the three and nine months ended September 30, 2005, balance includes approximately $2.3 million attributable to the gain on sale of the Company s ownership interest in BPR West, L.P., a joint venture in which the Company previously held a 50% interest. For the nine months ended September 30, 2005, balance also includes approximately $3.3 million attributable to the gain on sale of Rodney Village, a property

formerly owned by Benbrooke Ventures, a joint venture in which the Company previously held a 50% interest.

Note 6: Investments in/Advances to Unconsolidated Ventures

At September 30, 2005, the Company had investments in ten unconsolidated joint ventures: (1) Arapahoe Crossings, L.P., (2) BPR Land Partnership, L.P., (3) BPR South, L.P., (4) BPR Shopping Center, L.P., (5) CA New Plan Acquisition Fund, LLC, (6) CA New Plan Venture Direct Investment Fund, LLC, (7) CA New Plan Venture Fund, LLC, (8) Galileo America LLC, (9) NP / I&G Institutional Retail Company, LLC, and (10) Westgate Mall, LLC. The Company accounts for these investments using the equity method. The following table summarizes these joint venture projects as of September 30, 2005 and December 31, 2004 (dollars in thousands):

	City	State	JV Partner	Percent Ownership	Company Investments in/Advances to Unconsolidated Ventures September 30, 2005	December 31, 2004
Arapahoe Crossings, L.P. (1)	Aurora	CO	Foreign Investor	30%	$ 6,643	$ 6,718
BPR Land Partnership, L.P. (2)	Frisco	TX	George Allen/Milton Schaffer	50%	$ 1,137	$ 1,993
BPR South, L.P. (2)	Frisco	TX	George Allen/Milton Schaffer	50%	$ 873	N/A
BPR Shopping Center, L.P. (1)	Frisco	TX	Foreign Investor/George Allen/Milton Schaffer	25%	$ 3,683	$ 3,683
CA New Plan Acquisition Fund, LLC (3) (4)			Major U.S. Pension Fund	10%	$34	N/A
CA New Plan Venture Direct Investment Fund, LLC	Various	Various	Major U.S. Pension Fund	10%	$ 819	N/A
CA New Plan Venture Fund, LLC (5)	Various	Various	Major U.S. Pension Fund	10%	$ 4,471	$ 6,963
Galileo America LLC	Various	Various	Galileo Shopping America Trust	5%	$ 30,099	N/A
NP/I&G Institutional Retail Company, LLC (5)	Various	Various	JPMorgan Fleming Asset Management	20%	$ 22,555	$ 12,531
Westgate Mall, LLC (6)	Fairview Park	OH	Transwestern Investment Company/ The Richard E. Jacobs Group	10%	$ 930	N/A
Investments in/Advances to Unconsolidated Ventures					$ 71,244	$ 31,888

(1) The Company receives increased participation after a 10% return.

(2) The Company receives a 10% preferred return on its investment.

(3) As of September 30, 2005, there were no properties owned by the joint venture.

(4) The Company receives increased participation after a 10% IRR.

(5) The Company receives increased participation after a 12% IRR.

(6) The Company receives increased participation after a 13% return.

Combined summary unaudited financial information for the Company s investments in/advances to unconsolidated ventures is as follows (dollars in thousands, except footnotes):

Condensed Combined Balance Sheets

	September 30, 2005	December 31, 2004
Cash and cash equivalents	$ 41,730	$ 10,848
Receivables	22,707	8,814
Property and equipment, net of accumulated depreciation	2,383,532	501,517
Other assets, net of accumulated amortization	48,003	18,171
Total Assets	$ 2,495,972	$ 539,350