NEW PLAN EXCEL REALTY TRUST INC
Form 10-Q
November 07, 2006

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

| **(Mark One)** | |
|---|---|
| **x** | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the quarterly period ended September 30, 2006** |
| | **OR** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**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** | **33-0160389** |
|---|---|
| (State or other Jurisdiction of | (IRS Employer |

| Incorporation) | 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 x** **NO** o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

**Large Accelerated Filer** x **Accelerated Filer** o **Non-Accelerated Filer** 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** x

The number of shares of common stock of the Registrant outstanding on October 27, 2006 was 103,286,001.

**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 ), 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 real estate investment trust ( 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.

## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements**

**NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**
**For the Three and Nine Months Ended September 30, 2006 and 2005**
**(In thousands, except per share amounts)**

| | Three Months Ended September 30, 2006 (Unaudited) | 2005 | Nine Months Ended September 30, 2006 (Unaudited) | 2005 |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental income | $ 83,149 | $ 88,422 | $ 256,184 | $ 285,609 |
| Percentage rents | 1,119 | 890 | 4,500 | 4,936 |
| Expense reimbursements | 28,688 | 22,228 | 77,412 | 75,835 |
| Fee income | 4,036 | 3,228 | 11,485 | 6,153 |
| Total revenues | 116,992 | 114,768 | 349,581 | 372,533 |
| | | | | |
| Operating Expenses: | | | | |
| Operating costs | 19,124 | 17,474 | 56,131 | 59,306 |
| Real estate taxes | 16,223 | 15,022 | 44,760 | 49,242 |
| Depreciation and amortization | 22,707 | 22,025 | 67,966 | 71,523 |
| Provision for doubtful accounts | 1,685 | 4,466 | 6,137 | 9,133 |
| General and administrative | 6,713 | 9,779 | 21,051 | 18,970 |
| Total operating expenses | 66,452 | 68,766 | 196,045 | 208,174 |
| | | | | |
| Income before real estate sales, minority interest and other income and expenses | 50,540 | 46,002 | 153,536 | 164,359 |
| | | | | |
| Other income and expenses: | | | | |
| Interest, dividend and other income | 889 | 1,836 | 2,567 | 3,571 |
| Equity in income of unconsolidated ventures | 1,103 | 755 | 3,769 | 1,885 |
| Interest expense | (23,480) | (39,554) | (69,155) | (95,063) |
| Impairment of real estate | | (859) | | (859) |
| Minority interest in income of consolidated partnership and joint ventures | (210) | (4,359) | (561) | (5,775) |
| Income from continuing operations | 28,842 | 3,821 | 90,156 | 68,118 |
| | | | | |
| Discontinued operations: | | | | |
| Income from discontinued operations (Note 5) | 4,340 | 5,282 | 16,204 | 20,369 |
| | | | | |
| Income before gain on sale of real estate | 33,182 | 9,103 | 106,360 | 88,487 |
| | | | | |
| Gain on sale of real estate | | 186,942 | | 186,942 |
| | | | | |
| Net income | $ 33,182 | $ 196,045 | $ 106,360 | $ 275,429 |
| | | | | |
| Preferred dividends | (5,494) | (5,475) | (16,467) | (16,413) |
| Net income available to common stock basic | 27,688 | 190,570 | 89,893 | 259,016 |
| Minority interest in income of consolidated partnership | 210 | 4,359 | 561 | 4,892 |
| Net income available to common stock diluted | $ 27,898 | $ 194,929 | $ 90,454 | $ 263,908 |
| | | | | |
| Basic earnings per common share: | | | | |
| Income from continuing operations | $ 0.22 | $ 1.79 | $ 0.70 | $ 2.31 |
| Discontinued operations | 0.04 | 0.05 | 0.16 | 0.20 |
| Basic earnings per share | $ 0.26 | $ 1.84 | $ 0.86 | $ 2.51 |

| | | | | |
|---|---|---|---|---|
| Diluted earnings per common share: | | | | |
| Income from continuing operations | $ 0.21 | $ 1.77 | $ 0.68 | $ 2.29 |
| Discontinued operations | 0.04 | 0.05 | 0.15 | 0.19 |
| Diluted earnings per share | $ 0.25 | $ 1.82 | $ 0.83 | $ 2.48 |
| | | | | |
| Average shares outstanding basic | 104,506 | 103,460 | 104,419 | 103,157 |
| Average shares outstanding diluted | 109,448 | 106,835 | 108,899 | 106,623 |
| | | | | |
| Dividends per common share (1) | $ 0.3125 | $ 3.3125 | $ 0.9375 | $ 4.2375 |
| | | | | |
| Other comprehensive income: | | | | |
| Net income | $ 33,182 | $ 196,045 | $ 106,360 | $ 275,429 |
| Unrealized gain (loss) on available-for-sale securities | 199 | (384 ) | 455 | (59 ) |
| Unrealized gain on deferred compensation | 50 | 27 | 34 | 51 |
| Realized gain (loss) on interest risk hedges, net | 359 | (9,237 ) | 1,076 | (11,516 ) |
| Unrealized (loss) gain on interest risk hedges, net | (4,558 ) | 9,286 | (4,558 ) | 8,495 |
| Comprehensive income | $ 29,232 | $ 195,737 | $ 103,367 | $ 272,400 |

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(1) For the three an nine months ended September 30, 2005, dividends per common share include a special cash distribution of $3.00 per common share (the Special Dividend ), which was paid on September 27, 2005 to common stockholders of record on August 25, 2005.

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

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**NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**September 30, 2006 and December 31, 2005**
**(In thousands, except fractions, percentages and par value amounts)**

| | September 30, 2006 (Unaudited) | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Real estate: | | |
| Land | $ 729,119 | $ 724,901 |
| Building and improvements | 2,788,683 | 2,668,177 |
| Accumulated depreciation and amortization | (427,316) | (376,816) |
| Net real estate | 3,090,486 | 3,016,262 |
| Real estate held for sale | 19,276 | 19,244 |
| Cash and cash equivalents | 14,673 | 9,202 |
| Restricted cash | 18,660 | 19,906 |
| Marketable securities | 5,761 | 3,014 |
| Receivables: | | |
| Trade, net of allowance for doubtful accounts of $23,129 and $27,540 at September 30, 2006 and December 31, 2005, respectively | 26,797 | 20,751 |
| Deferred rent, net of allowance of $1,855 and $1,592 at September 30, 2006 and December 31, 2005, respectively | 30,848 | 29,314 |
| Other, net | 23,545 | 25,138 |
| Mortgages and notes receivable | 2,524 | 795 |
| Prepaid expenses and deferred charges | 52,611 | 43,346 |
| Investments in/advances to unconsolidated ventures | 85,806 | 95,538 |
| Intangible assets, net of accumulated amortization of $15,608 and $10,927 at September 30, 2006 and December 31, 2005, respectively | 74,173 | 78,046 |
| Other assets | 14,291 | 9,206 |
| Total assets | $ 3,459,451 | $ 3,369,762 |
| | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Liabilities: | | |
| Mortgages payable, including unamortized premium of $11,637 and $13,871 at September 30, 2006 and December 31, 2005, respectively | $ 436,470 | $ 433,653 |
| Notes payable, net of unamortized discount of $6,156 and $4,822 at September 30, 2006 and December 31, 2005, respectively | 1,166,848 | 968,347 |
| Credit agreements | 150,000 | 215,000 |
| Capital leases | 27,598 | 27,881 |
| Dividends payable | 37,484 | 37,826 |
| Other liabilities | 127,431 | 127,369 |
| Tenant security deposits | 10,574 | 10,641 |
| Total liabilities | 1,956,405 | 1,820,717 |
| | | |
| Minority interest in consolidated partnership and joint ventures | 56,088 | 57,659 |
| | | |
| 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, 2006 and December 31, 2005; 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, 2006 and December 31, 2005 | 10 | 10 |
| Common stock, $.01 par value, 250,000 shares authorized; 103,213 and 104,305 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively | 1,031 | 1,042 |
| Additional paid-in capital | 2,003,205 | 2,036,880 |
| Accumulated other comprehensive loss | (11,067) | (8,074) |
| Accumulated distribution in excess of net income | (546,221) | (538,472) |

| | | |
|---|---|---|
| Total stockholders equity | 1,446,958 | 1,491,386 |
| Total liabilities and stockholders equity | $ 3,459,451 | $ 3,369,762 |

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, 2006 and 2005**
**(Unaudited, in thousands)**

| | **September 30, 2006** | **September 30, 2005** |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 106,360 | $ 275,429 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 68,257 | 73,997 |
| Amortization of net premium/discount on mortgages and notes payable | (1,568) | (6,642) |
| Amortization of deferred debt and loan acquisition costs | 1,746 | 1,974 |
| Amortization of stock options | 1,905 | 1,905 |
| Interest on swaps | 1,570 | 240 |
| Amortization of asset retirement liabilities | 292 | |
| Amortization of below market leases | (1,237) | |
| Gain on sale of real estate, net | | (186,942) |
| Gain on sale of discontinued operations, net | (14,373) | (14,676) |
| Minority interest in income of consolidated partnership | 561 | 5,775 |
| Impairment of real estate assets | 305 | 859 |
| Equity in income of unconsolidated ventures | (3,769) | (1,885) |
| Distributions of income from unconsolidated ventures | 3,577 | 2,436 |
| Changes in operating assets and liabilities, net: | | |
| Change in restricted cash | 1,246 | 3,284 |
| Change in trade receivables | (6,046) | 9,948 |
| Change in deferred rent receivables | (1,734) | (3,358) |
| Change in other receivables | 1,593 | (959) |
| Change in other liabilities | (6,367) | 20,835 |
| Change in tenant security deposits | (67) | (667) |
| Change in sundry assets and liabilities | (3,154) | (3,567) |
| Net cash provided by operating activities | 149,097 | 177,986 |
| | | |
| Cash flows from investing activities: | | |
| Real estate acquisitions and building improvements | (82,121) | (115,927) |
| Acquisition, net of cash and restricted cash received | (70,717) | (124,652) |
| Proceeds from real estate sales, net | 48,889 | 984,131 |
| Repayments of mortgage notes receivable | (1,728) | 11,775 |
| Leasing commissions paid | (7,393) | (8,816) |
| Cash paid for asset management fee stream | | (18,500) |
| Cash paid for property management rights | | (22,251) |
| Cash paid for joint venture investment | | (5,441) |
| Proceeds from sale of joint venture interest | | 11,400 |
| Capital contributions to unconsolidated ventures | (6,467) | (48,482) |
| Distributions of capital from unconsolidated ventures | 15,526 | 4,778 |
| Cash paid to redeem partnership units (Note 10) | (554) | |
| Net cash used in investing activities | (104,565) | 668,015 |
| | | |
| Cash flows from financing activities: | | |
| Principal payments of mortgages and notes payable | (14,976) | (136,591) |
| Proceeds from public debt offering, net | 198,000 | 349,044 |
| Repayment of public debt | | (350,000) |
| Cash paid to settle swap agreement | | (11,945) |
| Proceeds from credit facility borrowing | 115,000 | 430,000 |
| Repayment of credit facility | (180,000) | (691,000) |
| Financing fees | (4,139) | (3,703) |
| Distributions paid to minority partners | (2,931) | (6,769) |
| Dividends paid | (113,825) | (453,836) |
| Proceeds from exercise of stock options | 7,918 | 7,601 |
| Cash paid for repurchase of common stock (Note 11) | (50,000) | |

| | | |
|---|---|---|
| Repayment of loans receivable for the purchase of common stock | 115 | 119 |
| Proceeds from dividend reinvestment plan | 5,777 | 19,731 |
| Net cash used in financing activities | (39,061) | (847,349) |
| | | |
| Net increase (decrease) in cash and cash equivalents | 5,471 | (1,348) |
| | | |
| Cash and cash equivalents at beginning of period | 9,202 | 7,292 |
| | | |
| Cash and cash equivalents at end of period | $ 14,673 | $ 5,944 |
| | | |
| Supplemental Cash Flow Disclosure, including Non-Cash Activities: | | |
| Cash paid for interest | $ 85,848 | $ 110,705 |
| Capitalized interest | 9,233 | 5,174 |
| State and local taxes paid | 315 | (35) |
| Mortgages assumed, net | 10,791 | 27,797 |
| Partnership units issued in acquisition | | 14,547 |

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

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**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 wholly-owned and majority-owned subsidiaries and consolidated variable interest entities, 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 reflect the accounts of the Company. The portion of these entities not owned by the Company is presented as minority interest as of and during the periods presented. All material inter-entity transactions have been eliminated.

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine (i) if the entity is a variable interest entity ( VIE ), (ii) if the Company is the primary beneficiary, in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46R, *Consolidation of Variable Interest Entities* ( FIN 46 ) and (iii) whether the Company has a controlling interest in the entity, in accordance with the FASB s Emerging Issues Task Force ( EITF ) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ( EITF 04-5 ). The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary in accordance with FIN 46 and (ii) entities that are non-VIEs which the Company controls in accordance with EITF 04-5. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company s share of earnings or losses, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence. The Company will reconsider its determination of whether an entity is a VIE and who qualifies as the primary beneficiary if certain events occur that are likely to cause a change in the original determinations.

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 statement 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, 2006 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.

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. 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. 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) limited partnership units of Excel Realty Partners, L.P. ( ERP ), a Delaware limited partnership, (ii) convertible senior notes, (iii) restricted stock grants and (iv) 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 $23.1 million and $27.5 million as of September 30, 2006 and December 31, 2005, 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, and 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 building and tenant improvements, are determined as if vacant, i.e., at replacement cost. Intangible assets, including the above-market value of leases and the value of in-place leases, 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 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 terms of the leases; 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, 2006 and December 31, 2005, the Company had aggregate loans to employees of approximately $0.5 million and $0.6 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, 2005 | $ 12,512 |
| Costs capitalized | 5,258 |
| Amortization / write-offs | (2,372) |
| Balance at September 30, 2006 | $ 15,398 |

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. Intercompany fees and gains on property transactions are eliminated to the extent of the Company s ownership interest.

To the extent that the Company contributes assets to a joint venture project, the difference between the Company s cost basis in the assets and the basis reflected at the joint venture level is amortized over the life of the related asset and included in the Company s share of equity in income of unconsolidated ventures.

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.

Asset Retirement Obligations

The Company accounts for its conditional asset retirement obligations in accordance with FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ( FIN 47 ), which the Company adopted as of December 31, 2005. A conditional asset retirement obligation refers to a legal obligation (pursuant to existing law or contract) to perform an asset retirement activity in which the timing and/or method of settlement are

conditioned upon the occurrence of a future event that may or may not be within the control of the Company. The Company s conditional asset retirement obligations arise primarily from legal requirements to decontaminate buildings at the time the buildings are sold or otherwise disposed of. In accordance with FIN 47, the Company has reasonably estimated the fair value of its conditional asset retirement obligations and has recognized a liability for conditional asset retirement obligations of approximately $0.9 million as of September 30, 2006. During the three and nine months ended September 30, 2006 the Company recorded approximately $14,000 and $0.3 million, respectively, of accretion associated with its asset retirement obligation liability.

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, 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 $0.9 million and $0.7 million at September 30, 2006 and December 31, 2005, respectively.

General Liability Insurance

The Company has one wholly-owned captive insurance company, ERT CIC, LLC ( ERT CIC ), which underwrites the first layer of general liability insurance programs for the Company s wholly-owned, majority-owned and joint venture properties (excluding properties owned by CA New Plan Acquisition Fund, LLC, CA New Plan Direct Investment Fund, LLC and CA New Plan Venture Fund, LLC, which are covered under a separate policy). The Company carries general liability insurance on its properties in amounts that it believes (i) adequately insures all of its properties and (ii) are in line with coverage obtained by owners of similar properties. As the Company owns ERT CIC, the Company is responsible for ERT CIC s liquidity and capital resources, and the accounts of ERT CIC are part of the Company s consolidated financial statements. If the Company experiences a loss and ERT CIC is required to pay under its insurance policy, the Company would ultimately record a loss to the extent of such required payment.

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. Rental revenue also includes lease termination fees. Lease termination fees were approximately $0.5 million and $2.6 million for the three months ended September 30, 2006 and 2005, respectively, and approximately $6.4 million and $5.1 million for the nine months ended September 30, 2006 and 2005, respectively.

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 and the results of operations of the Company s real property that has been sold, or otherwise qualifies 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. 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 taxable REIT subsidiaries ( TRS ). In general, 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). TRS are subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRS. At September 30, 2006, the Company s TRS had a tax net operating loss carryforward of approximately $16.7 million, expiring from 2015 to 2020. In addition, the Company s TRS had other net tax assets, most significantly relating to an asset impairment recognized in fiscal 2003, for financial accounting purposes that will not be recognized for tax purposes until the property is sold. The Company s TRS have ascribed a full valuation allowance to their net deferred tax assets.

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 revenue.

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

In accordance with the provisions of SFAS No. 144, certain prior period amounts have been reclassified to conform with the current period presentation.

Recently Issued Accounting Standards

In September 2006, the SEC issued Staff Accounting Bulletin ( SAB ) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB No.108 ). SAB No. 108 provides guidance on how the effects of uncorrected prior year misstatements should be considered when quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes registrants must quantify misstatements using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative

factors are considered, is material. SAB No. 108 is effective for the first annual period ending after November 15, 2006, with early application encouraged. The Company plans to adopt SAB No. 108 in its fourth fiscal quarter. The adoption of SAB No. 108 is not expected to have a material impact on the consolidated financial statements of the Company.

In September 2006, the FASB issued Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ( SFAS No. 158 ). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The adoption of SFAS No. 158 is not expected to have a material impact on the consolidated financial statements of the Company.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for such fiscal year, including financial statements for an interim period within such fiscal year. The adoption of SFAS No. 157 is not expected to have a material impact on the consolidated financial statements of the Company.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 (i) clarifies the accounting for uncertainty in income taxes recognized in companies financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, (ii) prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and (iii) provides guidance on derecognition of recognized tax benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on the consolidated financial statements of the Company.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* ( SFAS No. 156 ). SFAS No. 156 (i) clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability, (ii) requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable and (iii) permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization method or the fair value method for subsequent measurement. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006, but early adoption is permitted. The adoption of SFAS No. 156 is not expected to have a material impact on the consolidated financial statements of the Company.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* ( SFAS No. 155 ). SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and (v) amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on the consolidated financial statements of the Company.



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**Note 3: Acquisitions and Dispositions**

Acquisitions

During the nine months ended September 30, 2006, the Company acquired two shopping centers (Shoppes at Hickory Hollow and The Quentin Collection), a 40-acre land parcel (the Shoppes at Cinnaminson) and two buildings, one immediately adjacent to Tarpon Mall, a shopping center owned by the Company, and the other immediately adjacent to Hazel Path, a shopping center owned by the Company. Please refer to the following table for additional details (dollars in millions).

| | | | | | Purchase Price Components | | |
|---|---|---|---|---|---|---|---|
| **Property Name** | **Location** | **Acquisition Date** | **Gross Leasable Area (1)** | **Purchase Price** | **ERP Units** | **Assumed Debt** | **Cash** |
| Building at Tarpon Mall | Tarpon Springs, FL | 01/27/06 | 6,580 | $ 2.3 | | | $ 2.3 |
| Building at Hazel Path | Hendersonville, TN | 02/21/06 | 94,977 | $ 4.8 | | | $ 4.8 |
| Shoppes at Hickory Hollow | Antioch, TN | 09/21/06 | 144,469 | $ 15.5 | | $ 10.8 | $ 4.7 |
| The Quentin Collection | Kildeer, IL | 09/22/06 | 171,179 | $ 38.2 | | | $ 38.2 |
| the Shoppes at Cinnaminson | Cinnaminson, NJ | 09/29/06 | 40 acres | $ 10.7 | | | $ 10.7 |
| | **Total** | | | $ 71.5 | | $ 10.8 | $ 60.7 |

(1) Amounts in square feet, unless otherwise noted.

Additionally, on June 20, 2006, NewSem Tyrone Gardens LLC, a joint venture with The Sembler Company in which the Company holds a 90% interest, acquired Tyrone Gardens, a 209,337 square foot shopping center located in St. Petersburg, Florida, for approximately $19.0 million, including approximately $9.0 million of assumed mortgage indebtedness. In accordance with the provisions of EITF 04-5, this property is included as a consolidated entity in the Company s Consolidated Financial Statements and throughout the remainder of this document.

In the 2005 fiscal year, the Company acquired eight shopping centers (Brunswick Town Center, Hillcrest Shopping Center, West Ridge Shopping Center, Market Plaza, Surrey Square Mall, Fashion Place Shopping Center, Western Hills Plaza and Southland Shopping Center), a vacant building with 2.5 acres of land immediately adjacent to Midway Crossing (a shopping center owned by the Company), a vacant building immediately adjacent to Victory Square (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. Please refer to the following table for additional details (dollars in millions).

| Property Name | Location | Acquisition Date | Gross Leasable Area (1) | Purchase Price | Purchase Price Components: ERP Units | Purchase Price Components: Assumed Debt | Purchase Price Components: Cash |
|---|---|---|---|---|---|---|---|
| Building at Midway Crossing | Elyria, OH | 01/13/05 | 20,338(2) | $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 | 343,914 | $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 (3) (4) | Lake Worth, FL | 06/01/05 | 133,520 | $35.7 | | | $35.7 |
| Mableton Walk (3) | 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 | 190,323 | $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 |
| Building at Victory Square | Savannah, GA | 10/03/05 | 13,000 | $0.8 | | | $0.8 |
| Western Hills Plaza | Cincinnati, OH | 11/03/05 | 430,399 | $45.6 | | | $45.6 |
| Southland Shopping Center | Toledo, OH | 12/21/05 | 291,221 | $14.8 | | | $14.8 |
| | **Total** | | | $234.3 | $14.5 | $27.8 | $192.0 |

(1) Amounts in square feet, unless otherwise noted.

(2) Also includes 2.5 acres of land.

(3) 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.

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

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 approximately $968.0 million of total consideration, comprised of approximately $928.2 million in cash and approximately $39.8 million of equity in Galileo America LLC (the Property Transfer ).

The following 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 an affiliate of 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, 2006, the Company sold 12 shopping centers and two land parcels for aggregate gross proceeds of approximately $49.7 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).

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In addition to the Galileo Transactions, during 2005, the Company sold 12 properties, four land parcels, 90% of its ownership interest in The Pines and 90% of its ownership interest in Northshore West for aggregate gross proceeds of approximately $105.6 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/loss on sale as income from discontinued operations (Note 5). The results of operations from The Pines and Northshore West are not considered to be income from discontinued operations due to the Company s continued involvement in its operations as a result of the Company s 10% joint venture interest.

**Note 4: Real Estate Held for Sale**

As of September 30, 2006, two shopping centers, one single tenant property and eight 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 0.1 million square feet. Such properties had an aggregate book value of approximately $19.3 million, net of accumulated depreciation of approximately $0.5 million, as of September 30, 2006. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any operating properties, excluding land parcels, classified as held for sale as income from discontinued operations (Note 5).

As of December 31, 2005, five retail properties and three land parcels were classified as Real estate held for sale. These properties are located in five states and have an aggregate gross leasable area of approximately 0.5 million square feet. Such properties had an aggregate book value of approximately $19.2 million, net of accumulated depreciation of approximately $3.6 million, as of December 31, 2005. The five retail properties and three land parcels were all under contract for sale as of December 31, 2005 and all sales are expected to close by the third quarter of 2006, but in any event no later than December 31, 2006. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any operating properties, excluding land parcels, classified as held for sale as income from discontinued operations (Note 5).

**Note 5: Income from Discontinued Operations**

The following is a summary of income from discontinued operations for the three and nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| Total revenue | | | | |
| Real estate held for sale | $ 450 | $ 241 | $ 1,362 | $ 746 |
| Other discontinued operations | 479 | 4,091 | 2,662 | 13,061 |
| Total revenue | 929 | 4,332 | 4,024 | 13,807 |
| | | | | |
| Operating costs | | | | |
| Real estate held for sale | (66) | (28) | (201) | (82) |
| Other discontinued operations | (90) | (1,021) | (522) | (3,653) |
| | | | | |
| Real estate taxes | | | | |
| Real estate held for sale | (36) | (38) | (112) | (105) |
| Other discontinued operations | (28) | (212) | (447) | (1,368) |
| | | | | |
| Interest expense | | | | |
| Real estate held for sale | | | | |
| Other discontinued operations | | | | (5) |
| | | | | |
| Depreciation and amortization | | | | |
| Real estate held for sale | (1) | (27) | (5) | (81) |
| Other discontinued operations | (2) | (607) | (286) | (2,393) |
| | | | | |
| Provision for doubtful accounts | | | | |
| Real estate held for sale | (1) | | (1) | (12) |
| Other discontinued operations | (599) | (95) | (314) | (412) |
| | | | | |
| General and Administrative | | | | |
| Real estate held for sale | | | | |
| Other discontinued operations | | (1) | | (3) |
| | | | | |
| Total operating costs | (823) | (2,029) | (1,888) | (8,114) |
| | | | | |
| Income from discontinued operations before impairment and gain on sale | 106 | 2,303 | 2,136 | 5,693 |
| | | | | |
| Gain on sale of other discontinued operations (1) | 4,234 | 2,979 | 14,373 | 14,676 |
| | | | | |
| Impairment of real estate held for sale and other discontinued operations | | | (305) | |
| | | | | |
| Income from discontinued operations | $ 4,340 | $ 5,282 | $ 16,204 | $ 20,369 |

(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, as well as approximately $0.1 million of final distributions from Benbrooke Ventures.

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**Note 6: Investments in/Advances to Unconsolidated Ventures**

The following table summarizes the Company s investments in unconsolidated joint ventures as of September 30, 2006 and December 31, 2005 (dollars in thousands). The Company accounts for these investments using the equity method.

| | City | State | JV Partner | Company Percent Ownership | Investments in/Advances to Unconsolidated Ventures September 30, 2006 | | Investments in/Advances to Unconsolidated Ventures December 31, 2005 | |
|---|---|---|---|---|---|---|---|---|
| Arapahoe Crossings, L.P. (1) | Aurora | CO | Foreign Investor | 30% | $ | 6,815 | $ | 6,663 |
| BPR Land Partnership, L.P. (2) | Frisco | TX | George Allen/Milton Schaffer | 50% | $ | 938 | $ | 1,221 |
| BPR Shopping Center, L.P. (1) | Frisco | TX | Foreign Investor/George Allen/Milton Schaffer | 25% | $ | 2,915 | $ | 3,615 |
| BPR South, L.P. (2) | Frisco | TX | George Allen/Milton Schaffer | 50% | $ | 821 | $ | 822 |
| CA New Plan Acquisition Fund, LLC (3) | Various | Various | Major U.S. Pension Fund | 10% | $ | 2,543 | $ | 1,409 |
| CA New Plan Venture Direct Investment Fund, LLC | Various | Various | Major U.S. Pension Fund | 10% | $ | 1,001 | $ | 849 |
| CA New Plan Venture Fund, LLC (4) | Various | Various | Major U.S. Pension Fund | 10% | $ | 3,210 | $ | 3,692 |
| Galileo America LLC | Various | Various | Galileo Shopping America Trust | 5% | $ | 34,501 | $ | 33,762 |
| NP/I&G Institutional Retail Company, LLC (5) | Various | Various | JPMorgan Investment Management, Inc. | 20% | $ | 29,842 | $ | 41,447 |
| NP/I&G Institutional Retail Company II, LLC (3) (6) | | | JPMorgan Investment Management, Inc. | 20% | | | | |
| NPK Redevelopment I, LLC (7) | Various | Various | Kmart Corporation (Sears Holding Corp.) | 20% | $ | 1,901 | $ | 1,000 |
| Westgate Mall, LLC (8) | Fairview Park | OH | Transwestern Investment Company/ The Richard E. Jacobs Group | 10% | $ | 1,319 | $ | 1,058 |
| | | **Investments in/Advances to Unconsolidated Ventures** | | | $ | 85,806 | $ | 95,538 |

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

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

(3) The Company receives increasing participation after a 10% IRR.

(4) The Company receives increasing participation after a 12% IRR.

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

(6) The joint venture did not own any properties as of September 30, 2006.

(7) The Company has committed to contribute an additional $5.0 million to this joint venture. Percent ownership represents the Company s ownership interest in the joint venture subsequent to such contribution. The Company receives increasing participation after a 10% return.

(8) The Company receives increasing participation after a 13% IRR.

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

| Condensed Combined Balance Sheets | September 30, 2006 | December 31, 2005 |
|---|---|---|
| **Assets:** | | |
| Real estate assets | $ 2,933,476 | $ 2,687,346 |
| Accumulated depreciation | (138,870) | (79,158) |
| **Net real estate** | 2,794,606 | 2,608,188 |
| Trade receivables, net of allowance for doubtful account | 20,310 | 15,909 |
| Other assets, net of accumulated amortization | 203,192 | 198,779 |
| **Total Assets** | $ 3,018,108 | $ 2,822,876 |
| | | |
| **Liabilities:** | | |
| Mortgages payable, net of unamortized premium | $ 1,861,828 | $ 1,704,473 |
| Credit facilities | | 38,993 |
| Amounts payable to New Plan | 4,394 | 6,605 |
| Other liabilities | 133,462 | 119,723 |
| Total liabilities | 1,999,684 | 1,869,794 |
| Total partners capital | 1,018,424 | 953,082 |
| Total liabilities and partners capital | $ 3,018,108 | $ 2,822,876 |
| | | |
| Company s investments in/advances to unconsolidated ventures | $ 85,806 | $ 95,538 |

| Condensed Combined Statements of Income | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Rental revenues | $ 82,028 | $ 47,231 | $ 242,945 | $ 86,652 |
| Operating expenses | (22,384) | (12,492) | (70,003) | (24,812) |
| Interest expense | (26,404) | (14,585) | (75,941) | (25,573) |
| Depreciation and amortization | (27,698) | (12,076) | (79,606) | (20,433) |
| Other income, net | 100 | 441 | 281 | (164) |
| Gain on sale of real estate | | | 1,548 | |
| Loss from discontinued operations | (2) | | (2) | |
| **Net income** | $ 5,640 | $ 8,519 | $ 19,222 | $ 15,670 |
| | | | | |
| Company s share of net income (1) | $ 1,103 | $ 755 | $ 3,769 | $ 1,885 |

(1) For the three and nine months ended September 30, 2006, amount includes approximately $0.3 million and $0.9 million, respectively, of fee income adjustments, representing the Company s ownership interest in fee income earned.

The following is a brief summary of the unconsolidated joint venture obligations of the Company as of September 30, 2006.

- *Arapahoe Crossings, L.P.* The Company, together with a U.S. partnership comprised substantially of foreign investors, has an interest in a joint venture which owns Arapahoe Crossings, a community shopping center located in Aurora, Colorado. Under the terms of this joint venture, the Company has a 30% interest and is responsible for contributing its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately $48.0 million as of September 30, 2006.

- *BPR Land Partnership, L.P.* The Company has a 50% interest in a joint venture that owns approximately 27.1 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of September 30, 2006.

- *BPR Shopping Center, L.P.* The Company has a 25% interest in a joint venture that owns The Centre at Preston Ridge, a community shopping center located in Frisco, Texas. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately $68.0 million as of September 30, 2006.

- *BPR South, L.P.* The Company has a 50% interest in a joint venture that owns approximately 8.4 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of September 30, 2006.

- *CA New Plan Acquisition Fund, LLC.* The Company has a 10% interest in a joint venture that was created in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below). Under the terms of this joint venture, the Company has committed to contribute its pro rata share of capital required by the joint venture for asset acquisitions, up to a maximum amount of $4.2 million, of which approximately $2.8 million had been contributed by the Company as of September 30, 2006. The Company anticipates contributing the remaining approximate $1.4 million by the end of 2007. Additionally, the Company has agreed to contribute its pro rata share of any additional capital that might be required by the joint venture; however, the Company does not expect that any significant additional capital contributions will be required. As of September 30, 2006, the joint venture owned seven operating retail properties and one property under redevelopment. The joint venture had loans outstanding of approximately $67.9 million as of September 30, 2006.

- *CA New Plan Venture Direct Investment Fund, LLC.* The Company has a 10% interest in a joint venture that was created in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below). Under the terms of this joint venture, the Company has committed to contribute its pro rata share of capital required by the joint venture for certain redevelopment activities, up to a maximum amount of $0.4 million, and has agreed to contribute its pro rata share of any additional capital that might be required by the joint venture. As of September 30, 2006, the Company had not made any such required capital contributions, and does not expect that any significant additional capital contributions will be required. The joint venture owned seven retail properties as of September 30, 2006. The joint venture had loans outstanding of approximately $60.6 million as of September 30, 2006.

- *CA New Plan Venture Fund, LLC.* During 2005, this joint venture was restructured to create two additional joint ventures, CA New Plan Acquisition Fund, LLC, and CA New Plan Venture Direct Investment Fund, LLC. As a result of the restructuring, six stabilized assets were transferred from CA New Plan Venture Fund, LLC to CA New Plan Venture Direct Investment Fund, LLC, and two assets were sold. As of September 30, 2006, the joint venture owned five operating retail properties and one retail property under redevelopment. Under the terms of the restructured joint venture, the Company continues to have a 10% interest in the venture, and has committed to contribute its pro rata share of capital required by the joint venture for certain redevelopment activities, up to a maximum amount of $0.9 million, and has agreed to contribute its pro rata share of any additional capital that might be required by the joint venture. As of September 30, 2006, the Company had not made any such required capital contributions, and does not

expect that any significant additional capital contributions will be required. The joint venture had loans outstanding of approximately $54.8 million as of September 30, 2006.

- *Galileo America LLC*. The Company has a 5% interest in this joint venture, which interest was acquired in conjunction with the Galileo Transactions (Note 3). Under the terms of this joint venture, the Company is not obligated to contribute any additional capital to the joint venture; however, in the event that additional capital is contributed by the other joint venture partner, the Company has the option to contribute the amount necessary to maintain its 5% ownership interest. The Company anticipates making additional capital contributions from time to time to maintain its 5% ownership interest. As of September 30, 2006, this joint venture was comprised of 130 stabilized retail assets, two properties under redevelopment and one new development property, and had loans outstanding of approximately $1.2 billion.

- *NP / I&G Institutional Retail Company, LLC*. The Company has a strategic joint venture with JPMorgan Investment Management, Inc. to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned 13 retail properties as of September 30, 2006. Under the terms of this joint venture, the Company has a 20% interest in the venture and is responsible for contributing its pro rata share of any capital that might be required by the joint venture. The Company initially committed to contribute up to a maximum amount of $30.0 million to the joint venture, however, in connection with the acquisition of certain assets during 2005, the Company together with ERP, contributed a disproportionate share of capital to the venture, such that the Company s total capital investment as of December 31, 2005 was $41.4 million. The excess contribution was returned to the Company in February 2006. During the nine months ended September 30, 2006, in connection with the acquisition of certain other assets, the Company increased its committed capital to the venture to $31.8 million, of which approximately $31.1 million had been contributed as of September 30, 2006. The Company does not expect that any significant additional capital contributions will be required. The joint venture had loans outstanding of approximately $281.6 million as of September 30, 2006.

- *NP / I&G Institutional Retail Company II, LLC*. In February 2006, the Company formed a second strategic joint venture with JP Morgan Investment Management, Inc. to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. Under the terms of this joint venture, the Company has a 20% interest in the venture and has committed to contribute its pro rata share of any capital required by the venture for asset acquisitions, up to a maximum of $30.0 million. As of September 30, 2006, the Company had not made any such capital contributions. Additionally, the Company has agreed to contribute its pro rata share of any additional capital that might be required by the joint venture; however, the Company does not expect that any significant additional capital contributions will be required. As of September 30, 2006, the joint venture did not own any properties. The joint venture had no loans outstanding as of September 30, 2006.

- *NPK Redevelopment I, LLC*. The Company has a joint venture with Kmart Corporation (Sears Holding Corp.) pursuant to which the joint venture will redevelop three Kmart Supercenter properties formerly owned by Kmart. Under the terms of this joint venture, the Company has committed to contribute $6.0 million, of which $1.9 million had been contributed by the Company as of September 30, 2006. After the contribution of the total committed amount, the Company will have a 20% interest in the venture and be responsible for contributing its pro rata share of any additional capital that might be required by the joint venture; however, the Company does not expect that any significant additional capital contributions will be required. The joint venture had no loans outstanding as of September 30, 2006.

- *Westgate Mall, LLC*. The Company, together with Transwestern Investment Company and The Richard E. Jacobs Group, has an interest in a joint venture that was formed for the specific purpose of acquiring and redeveloping Westgate Mall, an enclosed mall located on 55 acres of land in Fairview Park, Ohio. The joint venture plans to redevelop the mall into a large community shopping center. Under the terms of this joint venture, the Company has a 10% interest in the venture and is responsible for contributing its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant additional capital contributions will be required. The joint venture had loans outstanding of approximately $27.7 million as of September 30, 2006.

**Note 7: Intangible Assets**

Intangible assets are comprised of the following (dollars in thousands):

| | September 30, 2006 | December 31, 2005 | Amortization Period |
|---|---|---|---|
| In-place lease value, legal fees and leasing commissions, net (Note 2) | $ 32,382 | $ 34,454 | Life of lease |
| Above market leases acquired, net (Note 2) | 2,878 | 3,498 | Life of lease |
| Amounts paid for asset management fee stream, net (Note 2) | 17,960 | 18,307 | 40 years |
| Amounts paid for property management rights, net (Note 2) | 20,953 | 21,787 | 20 years |
| | | | |
| Total | $ 74,173 | $ 78,046 | |

Aggregate amortization expense on these assets for the three months ended September 30, 2006 and 2005 was approximately $2.1 million and $1.9 million, respectively. Aggregate amortization expense for the three months ended September 30, 2006 and 2005 included write-offs of approximately $22,800 and $33,310, respectively. Aggregate amortization expense on these assets for the nine months ended September 30, 2006 and 2005 was approximately $7.0 million and $4.8 million, respectively, and included write-offs of approximately $0.7 million and $0.1 million, respectively. The estimated amortization expense on these assets during the next five fiscal years is as follows (dollars in thousands):

| Year | |
|---|---|
| 2006 (remaining three months) | $ 2,498 |
| 2007 | 8,011 |
| 2008 | 7,189 |
| 2009 | 6,672 |
| 2010 | 5,947 |

**Note 8: Debt Obligations**

As of September 30, 2006 and December 31, 2005, the Company had the following debt obligations under various arrangements with financial institutions (dollars in thousands):

| | Maximum Amount Available | Carrying Value as of September 30, 2006 | December 31, 2005 | Stated Interest Rates | Scheduled Maturity Date |
|---|---|---|---|---|---|
| CREDIT AGREEMENTS | | | | | |
| Revolving Facility (1) | N/A | N/A | $ 65,000 | N/A | N/A |
| Secured Term Loan (1) | N/A | N/A | 150,000 | N/A | N/A |
| Amended Revolving Facility | $ 350,000 | | N/A | LIBOR + 55 bp (2) (3) | August 2010 |
| Amended Secured Term Loan | 150,000 | 150,000 | N/A | LIBOR + 55 bp (2) | August 2010 |
| Total Credit Agreements | $ 500,000 | $ 150,000 | $ 215,000 | | |
| | | | | | |
| MORTGAGES PAYABLE | | | | | |
| Fixed Rate Mortgages | | $ 400,918 | $ 395,486 | 5.240% - 9.625% | 2007 2028 |
| Variable Rate Mortgages | | 23,915 | 24,296 | Variable (4) | 2006 2011 |
| Total Mortgages | | 424,833 | 419,782 | | |
| Net unamortized premium | | 11,637 | 13,871 | | |
| Total Mortgages, net | | $ 436,470 | $ 433,653 | | |
| | | | | | |
| NOTES PAYABLE | | | | | |
| 7.35% unsecured notes | | $ 30,000 | $ 30,000 | 7.350% | June 2007 |
| 7.40% unsecured notes | | 150,000 | 150,000 | 7.400% | September 2009 |
| 3.75% unsecured notes (5) | | 115,000 | 115,000 | 3.750% | June 2010 |
| 4.50% unsecured notes (6) | | 150,000 | 150,000 | 4.500% | February 2011 |
| 3.70% unsecured notes (7) | | 200,000 | | 3.700% | September 2011 |
| 5.13% unsecured notes | | 125,000 | 125,000 | 5.125% | September 2012 |
| 5.50% unsecured notes | | 50,000 | 50,000 | 5.500% | November 2013 |
| 5.30% unsecured notes | | 100,000 | 100,000 | 5.300% | January 2015 |
| 5.25% unsecured notes | | 125,000 | 125,000 | 5.250% | September 2015 |
| 7.97% unsecured notes | | 10,000 | 10,000 | 7.970% | August 2026 |
| 7.65% unsecured notes | | 25,000 | 25,000 | 7.650% | November 2026 |
| 7.68% unsecured notes | | 10,000 | 10,000 | 7.680% | November 2026 |
| 7.68% unsecured notes | | 10,000 | 10,000 | 7.680% | November 2026 |
| 6.90% unsecured notes | | 25,000 | 25,000 | 6.900% | February 2028 |
| 6.90% unsecured notes | | 25,000 | 25,000 | 6.900% | February 2028 |
| 7.50% unsecured notes | | 25,000 | 25,000 | 7.500% | July 2029 |
| Total Notes | | 1,175,000 | 975,000 | | |
| Net unamortized discount | | (6,156) | (4,822) | | |
| Impact of pay-floating swap agreements | | (1,996) | (1,831) | | |
| Total Notes, net | | $ 1,166,848 | $ 968,347 | | |
| | | | | | |
| CAPITAL LEASES | | $ 27,598 | $ 27,881 | 7.500% | June 2031 |
| | | | | | |
| TOTAL DEBT | | $ 1,780,916 | $ 1,644,881 | | |

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(1) As discussed below, agreement was amended and restated on August 25, 2006.

(2) The Company incurs interest using the 30-day LIBOR rate which was 5.32% as of September 30, 2006. The interest rate on this facility adjusts based on the Company s credit rating.

(3) The Company also incurs an annual facility fee of 15 basis points on this facility.

(4) As determined by the applicable loan agreement, the Company incurs interest on these obligations using either the 30-day LIBOR rate, which was 5.32% as of September 30, 2006, plus 125 basis points, or the Moody s A Corporate Bond Index, which was 5.42% as of September 30, 2006, plus spreads ranging from 12.5 to 37.5 basis points.

(5) Represents convertible senior notes. At certain dates, and upon the occurrence of certain events, the notes are convertible into cash up to their principal amount and, with respect to the remainder, if any, of the conversion value in excess of such principal amount, cash or shares of the Company s common stock. The initial conversion price is $25.00 per share. On or after June 9, 2008, the Company may redeem all or a portion of the notes at a redemption price equal to the principal amount of the notes plus any accrued interest. In addition, on June 1, 2010, June 1, 2012, and June 1, 2018, or upon the occurrence of certain fundamental changes prior to June 1, 2010, note holders have the right to require the Company to purchase all or any portion of the notes, at a purchase price equal to the principal amount plus any accrued and unpaid interest on the notes. Although the stated maturity date of the notes is June 1, 2023, the scheduled maturity date listed above represents the first date that note holders have the right, not contingent on other provisions, to require the Company to purchase all or any portion of the notes.

(6) The Company has entered into reverse interest rate swap agreements that effectively converted the interest rate on $65.0 million of the notes from a fixed rate to a blended floating rate of 30 basis points over the six-month LIBOR rate.

(7) Represents convertible senior notes issued in a private offering completed on September 19, 2006 (as further discussed below). At certain dates, and upon the occurrence of certain events, the notes are convertible into cash up to their principal amount and, with respect to the remainder, if any, of the conversion value in excess of such principal amount, cash or shares of the Company s common stock. The initial conversion rate is 30.5506 shares of the Company s common stock for each $1,000 principal amount of notes (which is equivalent to an initial conversion price of $32.73 per share). On or after September 20, 2011, the Company may redeem all or a portion of the notes at a redemption price equal to the principal amount of the notes plus any accrued interest. In addition, on September 20, 2011, September 15, 2016, and September 15, 2021, or upon the occurrence of certain change in control transactions prior to September 20, 2011, note holders may require the Company to repurchase all or a portion of the notes at a purchase price equal to the principal amount plus

any accrued and unpaid interest on the notes. Although the stated maturity date of the notes is September 15, 2026, the scheduled maturity date listed above represents the first date that note holders have the right, contingent on other provisions, to require the Company to purchase all or any portion of the notes.

On September 19, 2006, the Company completed a private offering of $200.0 million aggregate principal amount of 3.70% senior convertible notes due September 15, 2026 (the September 2006 Debt Offering ). At certain times and upon the occurrence of certain events, the notes are convertible into cash up to their principal amount and, with respect to the remainder, if any, of the conversion value in excess of such principal amount, cash or shares of the Company s common stock. The initial conversion rate will be 30.5506 shares per $1,000 principal amount of notes (which is equivalent to an initial conversion price of $32.73 per share). The notes ma