CBL & ASSOCIATES PROPERTIES INC
Form 10-Q
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

COMMISSION FILE NO. 1-12494

CBL & ASSOCIATES PROPERTIES, INC.
(Exact Name of registrant as specified in its charter)

DELAWARE	62-1545718
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2030 Hamilton Place Blvd., Suite 500, Chattanooga, TN 37421-6000
(Address of principal executive office, including zip code)

Registrant's telephone number, including area code (423) 855-0001

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES |X| NO |_|

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 |_| Non-accelerated filer |_|

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

YES |_| NO |X|

As of May 4, 2006, there were 64,324,279 shares of common stock, par value $0.01 per share, outstanding.

CBL & Associates Properties, Inc.

PART I - FINANCIAL INFORMATION

ITEM 1: Financial Statements

CBL & Associates Properties, Inc.

Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	March 31, 2006
ASSETS	
Real estate assets:	
Land..	$ 766,431
Buildings and improvements.....................................	5,680,097
	6,446,528
Less accumulated depreciation.................................	(774,049)
	5,672,479
Real estate assets held for sale, net............................	98,073
Developments in progress..	170,137
Net investment in real estate assets...........................	5,940,689
Cash and cash equivalents..	41,490
Receivables:	
Tenant, net of allowance for doubtful accounts of $1,139 in	

2006 and $3,439 in 2005	57,274
Other	9,726
Mortgage and other notes receivable	18,077
Investments in unconsolidated affiliates	81,442
Other assets	209,354
	$ 6,358,052
LIABILITIES AND SHAREHOLDERS' EQUITY	
Mortgage and other notes payable	$ 4,393,888
Accounts payable and accrued liabilities	284,190
Total liabilities	4,678,078
Commitments and contingencies (Notes 3 and 8)	
Minority interests	586,436
Shareholders' equity:	
Preferred stock, $.01 par value, 15,000,000 shares authorized:	
8.75% Series B Cumulative Redeemable Preferred Stock, 2,000,000 shares outstanding in 2006 and 2005	20
7.75% Series C Cumulative Redeemable Preferred Stock, 460,000 shares outstanding in 2006 and 2005	5
7.375% Series D Cumulative Redeemable Preferred Stock, 700,000 shares outstanding in 2006 and 2005	7
Common stock, $.01 par value, 180,000,000 shares authorized, 64,243,646 and 62,512,816 shares issued and outstanding in 2005 and 2004, respectively	642
Additional paid - in capital	1,047,701
Deferred compensation	-
Other comprehensive income	1,095
Retained earnings	44,068
Total shareholders' equity	1,093,538
	$ 6,358,052

CBL & Associates Properties, Inc.

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Mo Mar
	2006
REVENUES:	
Minimum rents	$ 152,152
Percentage rents	6,353
Other rents	3,880
Tenant reimbursements	75,991

Management, development and leasing fees		1,077
Other		5,866
Total revenues		245,319
EXPENSES:		
Property operating		40,737
Depreciation and amortization		54,766
Real estate taxes		19,265
Maintenance and repairs		12,693
General and administrative		9,587
Loss on impairment of real estate assets		-
Other		4,169
Total expenses		141,217
Income from operations		104,102
Interest income		1,732
Interest expense		(63,929)
Loss on extinguishment of debt		-
Gain on sales of real estate assets		900
Equity in earnings of unconsolidated affiliates		2,068
Minority interest in earnings:		
Operating partnership		(18,129)
Shopping center properties		(588)
Income before discontinued operations		26,156
Operating income of discontinued operations		2,099
Loss on discontinued operations		-
Net income		28,255
Preferred dividends		(7,642)
Net income available to common shareholders	$	20,613
Basic per share data:		
Income before discontinued operations, net of preferred dividends	$	0.30
Discontinued operations		0.03
Net income available to common shareholders	$	0.33
Weighted average common shares outstanding		62,655
Diluted per share data:		
Income before discontinued operations, net of preferred dividends	$	0.29
Discontinued operations		0.03
Net income available to common shareholders	$	0.32
Weighted average common and potential dilutive common shares outstanding		64,283
Dividends declared per common share	$	0.4575

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three M Ma
	2006
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 28,255
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	39,026
Amortization	18,032
Amortization of debt premiums	(1,842)
Amortization of above and below market leases	(2,602)
Gain on sales of real estate assets	(900)
Loss on disposal of discontinued operations	-
Abandoned development projects	(5)
Stock-based compensation expense	2,195
Loss on extinguishment of debt	-
Equity in earnings of unconsolidated affiliates	(2,068)
Distributions from unconsolidated affiliates	2,269
Loss on impairment of real estate assets	-
Minority interest in earnings	18,717
Changes in:	
Tenant and other receivables	(5,709)
Other assets	(3,556)
Accounts payable and accrued liabilities	(23,830)
Net cash provided by operating activities	67,982
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to real estate assets	(50,044)
Changes in other assets	4,805
Proceeds from sales of real estate assets	1,541
Payments received on mortgage notes receivable	40
Additional investments in and advances to unconsolidated affiliates	(2,964)
Distributions in excess of equity in earnings of unconsolidated affiliates	5,459
Purchase of minority interest in the Operating Partnership	(1,112)
Net cash provided by (used in) investing activities	(42,275)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from mortgage and other notes payable	72,328
Principal payments on mortgage and other notes payable	(13,453)
Additions to deferred financing costs	(2,460)
Proceeds from issuance of common stock	155
Costs related to issuance of preferred stock	-
Proceeds from exercise of stock options	2,395
Prepayment fees on extinguishment of debt	-
Distributions to minority interests	(30,057)
Dividends paid to holders of preferred stock	(7,642)
Dividends paid to common shareholders	(34,321)

Net cash used in financing activities	(13,055)
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,652
CASH AND CASH EQUIVALENTS, beginning of period	28,838
CASH AND CASH EQUIVALENTS, end of period	$ 41,490
SUPPLEMENTAL INFORMATION:	
Cash paid for interest, net of amounts capitalized	$ 59,298

CBL & Associates Properties, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands, except per share data)

Note 1 - Organization and Basis of Presentation

CBL & Associates Properties, Inc. ("CBL"), a Delaware corporation, is a self-managed, self-administered, fully integrated real estate investment trust ("REIT") that is engaged in the ownership, development, acquisition, leasing, management and operation of regional shopping malls and community centers. CBL's shopping center properties are located in 27 states, but primarily in the southeastern and midwestern United States.

CBL conducts substantially all of its business through CBL & Associates Limited Partnership (the "Operating Partnership"). At March 31, 2006, the Operating Partnership owned controlling interests in seventy-two regional malls, twenty-seven associated centers (each adjacent to a regional shopping mall), seven community centers and one office building. The Operating Partnership consolidates the financial statements of all entities in which it has a controlling financial interest or where it is the primary beneficiary of a variable interest entity. The Operating Partnership owned non-controlling interests in seven regional malls and three associated centers. Because one or more of the other partners have substantive participating rights, the Operating Partnership does not control these partnerships and, accordingly, accounts for these investments using the equity method. The Operating Partnership had two mall expansions, one open-air shopping center, two open-air shopping center expansions, two associated centers and three community centers under construction at March 31, 2006. The Operating Partnership also holds options to acquire certain development properties owned by third parties.

CBL is the 100% owner of two qualified REIT subsidiaries, CBL Holdings I, Inc. and CBL Holdings II, Inc. At March 31, 2006, CBL Holdings I, Inc., the sole general partner of the Operating Partnership, owned a 1.6% general partner interest in the Operating Partnership and CBL Holdings II, Inc. owned a 53.9% limited partner interest for a combined interest held by CBL of 55.5%.

The minority interest in the Operating Partnership is held primarily by CBL & Associates, Inc. and its affiliates (collectively "CBL's Predecessor") and by affiliates of The Richard E. Jacobs Group, Inc. ("Jacobs"). CBL's Predecessor contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for a limited partner interest when the Operating Partnership was formed in November 1993. Jacobs contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for limited partner interests when the Operating

Partnership acquired the majority of Jacobs' interests in 23 properties in January 2001 and the balance of such interests in February 2002. At March 31, 2006, CBL's Predecessor owned a 15.1% limited partner interest, Jacobs owned a 20.5% limited partner interest and third parties owned an 8.9% limited partner interest in the Operating Partnership. CBL's Predecessor also owned 5.9 million shares of CBL's common stock at March 31, 2006, for a total combined effective interest of 20.3% in the Operating Partnership.

The Operating Partnership conducts CBL's property management and development activities through CBL & Associates Management, Inc. (the "Management Company") to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Operating Partnership owns 100% of the Management Company's preferred stock and common stock.

CBL, the Operating Partnership and the Management Company are collectively referred to herein as "the Company".

The accompanying condensed consolidated financial statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial

information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. The results for the interim period ended March 31, 2006, are not necessarily indicative of the results to be obtained for the full fiscal year.

These condensed consolidated financial statements should be read in conjunction with CBL & Associates Properties, Inc.'s audited consolidated financial statements and notes thereto included in the CBL & Associates Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2005.

Note 2 - Joint Ventures

Investment in Unconsolidated Affiliates

At March 31, 2006, the Company had investments in the following 14 partnerships and joint ventures, which are accounted for using the equity method of accounting:

Joint Venture	Property Name	Company's Interest
Governor's Square IB	Governor's Plaza	50.0%
Governor's Square Company	Governor's Square	47.5%
High Pointe Commons, LP	High Pointe Commons	50.0%
Imperial Valley Mall L.P.	Imperial Valley Mall	60.0%
Imperial Valley Peripheral L.P.	Imperial Valley Mall (vacant land)	60.0%
Imperial Valley Commons L.P.	Imperial Valley Commons	60.0%
Kentucky Oaks Mall Company	Kentucky Oaks Mall	50.0%

Mall of South Carolina L.P.	Coastal Grand-Myrtle Beach	50.0%
Mall of South Outparcel L.P.	Coastal Grand-Myrtle Beach (vacant land)	50.0%
Mall Shopping Center Company	Plaza del Sol	50.6%
N. Dalton Bypass, LLC	Hammond Creek Commons	51.0%
Parkway Place L.P.	Parkway Place	45.0%
Triangle Town Member LLC	Triangle Town Center, Triangle Town Commons and Triangle Town Place	50.0%
York Town Center, LP	York Town Center	50.0%

Condensed combined financial statement information for the unconsolidated affiliates is as follows:

	Total for the Three Months Ended March 31,		Company's Share f Three Months Ended March 3
	2006	2005	2006
Revenues	$ 24,879	$ 35,826	$ 12,506
Depreciation and amortization	(6,476)	(7,914)	(3,278)
Interest expense	(8,665)	(8,898)	(4,394)
Other operating expenses	(6,879)	(8,595)	(3,469)
Discontinued operations	-	454	-
Gain on sales of real estate assets	1,406	1,471	703
Net income	$ 4,265	$ 12,344	$ 2,068

Note 3 - Mortgage and Other Notes Payable

Mortgage and other notes payable consisted of the following at March 31, 2006 and December 31, 2005, respectively:

	March 31, 2006		December
	Amount	Weighted Average Interest Rate(1)	Amount
Fixed-rate debt:			
Non-recourse loans on operating properties	$ 3,262,444	6.02%	$ 3,281,939
Variable-rate debt:			
Recourse term loans on operating properties	292,000	5.67%	292,000
Construction loans	100,294	5.95%	76,831
Lines of credit	739,150	5.46%	690,285
Total variable-rate debt	1,131,444	5.56%	1,059,116
Total	$ 4,393,888	5.90%	$ 4,341,055

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Unsecured Line of Credit

The Company has one unsecured credit facility with total availability of $500,000. This credit facility bears interest at the London Interbank Offered Rate ("LIBOR") plus a margin of 90 to 145 basis points based on the Company's leverage, as defined in the agreement. The credit facility matures in August 2006 and has three one-year extension options, which are at the Company's election. At March 31, 2006, the outstanding borrowings of $350,000 under the unsecured credit facility had a weighted average interest rate of 5.17%.

Secured Lines of Credit

The Company has four secured lines of credit that are used for construction, acquisition, and working capital purposes. Each of these lines is secured by mortgages on certain of the Company's operating properties. Borrowings under the secured lines of credit had a weighted average interest rate of 5.72% at March 31, 2006. The following summarizes certain information about the secured lines of credit as of March 31, 2006:

Total Available	Total Outstanding	Maturity Date
$ 476,000	$ 358,150	February 2009
100,000	29,000	June 2007
20,000	1,000	March 2007
10,000	1,000	April 2007
$ 606,000	$ 389,150	

In February 2006, the Company amended one of the secured credit facilities to increase the maximum availability from $373,000 to $476,000, extend the maturity date from February 28, 2006 to February 28, 2009 plus a one-year extension option, increase the minimum tangible net worth requirement, as defined, from $1,000,000 to $1,370,000 and increase the limit on the maximum availability that the Company may request from $500,000 to $650,000.

Letters of Credit

At March 31, 2006, the Company had additional secured lines of credit with a total commitment of $27,123 that can only be used for issuing letters of credit. The total outstanding amount under these lines of credit was $25,880 at March 31, 2006.

Covenants and Restrictions

Twenty-three malls, five associated centers, two community centers and the corporate office building are owned by special purpose entities that are

included in the Company's consolidated financial statements. The sole business purpose of the special purpose entities is to own and operate these properties, each of which is encumbered by a commercial-mortgage-backed-securities loan. The real estate and other assets owned by these special purpose entities are restricted under the loan agreements in that they are not available to settle other debts of the Company. However, so long as the loans are not under an event of default, as defined in the loan agreements, the cash flows from these properties, after payments of debt service, operating expenses and reserves, are available for distribution to the Company.

The weighted average remaining term of the Company's consolidated debt was 4.7 years at March 31, 2006 and 4.7 years at December 31, 2005. Of the $751,197 of debt that will mature before March 31, 2007, the Company has extension options that will extend the maturity date of $587,222 of that debt beyond March 31, 2007. The mortgage notes payable comprising the remaining $163,975 are expected to be retired or refinanced.

Note 4 - Shareholders' Equity And Minority Interests

In January 2006, holders of 1,480,066 common units of limited partnership interest in the Operating Partnership and holders of 27,582 Series J special common units ("J-SCUs") of limited partnership interest in the Operating Partnership exercised their conversion rights. The Company elected to issue 1,480,066 shares of common stock in exchange for the common units and to pay cash of $1,112 in exchange for the J-SCUs.

Note 5 - Segment Information

The Company measures performance and allocates resources according to property type, which is determined based on certain criteria such as type of tenants, capital requirements, economic risks, leasing terms, and short- and long-term returns on capital. Rental income and tenant reimbursements from tenant leases provide the majority of revenues from all segments. Information on the Company's reportable segments is presented as follows:

Three Months Ended March 31, 2006	Malls	Associated Centers	Community Centers	All Othe
Revenues	$ 227,828	$ 9,152	$ 1,904	$ 6,
Property operating expenses (1)	(75,542)	(2,224)	(693)	5,
Interest expense	(54,310)	(1,154)	(700)	(7,
Other expense	-	-	-	(4,
Gain on sales of real estate assets	-	-	53	
Segment profit and loss	$ 97,976	$ 5,774	$ 564	$ 1,
Depreciation and amortization expense				
General and administrative expense				
Interest income				
Equity in earnings of unconsolidated affiliates				
Minority interest in earnings				
Income before discontinued operations				
Total assets	$5,721,502	$ 273,772	$ 151,635	$ 211,
Capital expenditures (2)	$ 32,920	$ 10,222	$ 315	$ 12,

9

Three Months Ended March 31, 2005	Malls	Associated Centers	Community Centers	All Othe
Revenues	$ 199,181	$ 8,246	$ 1,593	$ 5,
Property operating expenses (1)	(66,915)	(1,954)	(361)	5,
Interest expense	(43,489)	(1,174)	(715)	(3,
Other expense	-	-	-	(3,
Gain (loss) on sales of real estate assets	990	-	(1,724)	3,
Segment profit and loss	$ 89,767	$ 5,118	$ (1,207)	$ 8,
Depreciation and amortization expense				
General and administrative expense				
Loss on impairment of real estate assets				
Loss on extinguishment of debt				
Interest income				
Equity in earnings of unconsolidated affiliates				
Minority interest in earnings				
Income before discontinued operations				
Total assets	$4,654,115	$ 277,335	$ 89,574	$ 157,
Capital expenditures (2)	$ 33,828	$ 5,962	$ 737	$ 14,

Note 6- Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of unrestricted common shares outstanding for the period. Diluted EPS assumes the issuance of common stock for all potential dilutive common shares outstanding. The limited partners' rights to convert their minority interest in the Operating Partnership into shares of common stock are not dilutive. The following summarizes the impact of potential dilutive common shares on the denominator used to compute earnings per share:

	Three Months Ended March 31,	
	2006	2005
Weighted average shares outstanding	63,042	62,768
Effect of nonvested stock awards	(387)	(320)
Denominator - basic earnings per share	62,655	62,448
Dilutive effect of:		
Stock options	1,421	1,888
Nonvested stock awards	183	242

Deemed shares related to deferred compensation arrangements	64	216
Denominator - diluted earnings per share	64,283	64,794

Note 7- Comprehensive Income

Comprehensive income includes all changes in shareholders' equity during the period, except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes other comprehensive income of $807 in the three months ended March 31, 2006, which represents unrealized gain on marketable securities that are classified as available for sale. Comprehensive income was equal to net income for the three months ended March 31, 2005.

10

Note 8- Contingencies

The Company is currently involved in certain litigation that arises in the ordinary course of business. It is management's opinion that the pending litigation will not materially affect the financial position or results of operations of the Company.

The Company has guaranteed 50% of the debt of Parkway Place L.P., an unconsolidated affiliate in which the Company owns a 45% interest, which owns Parkway Place in Huntsville, AL. The total amount outstanding at March 31, 2006, was $53,200 of which the Company has guaranteed $26,600. The guaranty will expire when the related debt matures in June 2008.

The Company has issued various bonds that it would have to satisfy in the event of non-performance. At March 31, 2006, the total amount outstanding on these bonds was $24,013.

Note 9 - Share-Based Compensation

The Company maintains the CBL & Associates Properties, Inc. Amended and Restated Stock Incentive Plan, as amended, which permits the Company to issue stock options and common stock to selected officers, employees and directors of the Company up to a total of 10,400,000 shares. The compensation committee of the board of directors (the "Committee") administers the plan. The compensation cost that has been charged against income for the plan was $2,253 and $1,142 for the three months ended March 31, 2006 and 2005, respectively. Compensation cost resulting from share-based awards is recorded at the Management Company. The Management Company is a taxable entity; however, as a result of it incurring recurring losses, a full valuation allowance has been recorded against its net deferred tax asset. Accordingly, the recognition of compensation cost or the tax deduction received upon the exercise or vesting of share-based awards, resulted in no tax benefits to the Company. Compensation cost capitalized as part of real estate assets was $106 and $44 for the three months ended March 31, 2006 and 2005, respectively.

Stock options issued under the plan allow for the purchase of common stock at the fair market value of the stock on the date of grant. Stock options granted to officers and employees vest and become exercisable in installments on each of the first five anniversaries of the date of grant and expire 10 years after the date of grant. Stock options granted to independent directors are fully vested upon grant; however, the independent directors may not sell, pledge or otherwise transfer their stock options during their board term or for one year thereafter. No stock options have been granted since 2002.

Under the plan, common stock may be awarded either alone, in addition to, or in tandem with other stock awards granted under the plan. The Committee has the authority to determine eligible persons to whom common stock will be awarded, the number of shares to be awarded and the duration of the vesting period, as defined. The Committee may also provide for the issuance of common stock under the plan on a deferred basis pursuant to deferred compensation arrangements. The fair value of common stock awarded under the plan is determined based on the market price of the Company's common stock on the grant date.

Historically, the Company accounted for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. Effective January 1, 2003, the Company elected to begin recording the expense associated with stock options granted after January 1, 2003, on a prospective basis in accordance with the fair value and transition

provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - An Amendment of FASB Statement No. 123."

No stock-based compensation expense related to stock options granted prior to January 1, 2003, has been reflected in net income since these awards are being accounted for under APB No. 25 and all options granted had an exercise price equal to the fair value of the Company's common stock on the date of grant. For SFAS No. 123 pro forma disclosure purposes, the fair value of stock options was determined as of the date of grant using the Black-Scholes option pricing model. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment," using the modified-prospective-transition method. Under that transition method, compensation cost recognized during the three months ended March 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company's net income available to common shareholders for the three months ended March 31, 2006, is $94 lower than if it had continued to account for share-based compensation under SFAS No. 123. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been the same as reported basic and diluted earnings per share if the Company had not adopted SFAS 123(R).

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to all outstanding and unvested awards in the three months ended March 31, 2005:

	Three Months Ended March 31, 2005

Net income available to common shareholders, as reported	$25,371
Add: Stock-based compensation expense included in reported net income available to common shareholders	1,142
Less: Total stock-based compensation expense determined under fair value method	(1,247)
Pro forma net income available to common shareholders	$25,226
Earnings per share:	
Basic, as reported	$ 0.41
Basic, pro forma	$ 0.41
Diluted, as reported	$ 0.39
Diluted, pro forma	$ 0.39

The Company's stock option activity for the three months ended March 31, 2006 is summarized as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggr Intr Va
Outstanding at January 1, 2006	2,208,440	$ 13.89		
Exercised	(212,020)	$ 11.29		
Outstanding at March 31, 2006	1,996,420	$ 14.16	4.1 years	$ 5
Vested or expected to vest at March 31, 2006	1,996,420	$ 14.16	4.1 years	$ 5
Options exercisable at March 31, 2006	1,569,420	$ 13.40	3.7 years	$ 4

No stock options have been granted since the adoption of SFAS No. 123 on January 1, 2003. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005, was $6,611 and $2,766, respectively.

A summary of the status of the Company's nonvested shares as of March 31, 2006, and changes during the three months ended March 31, 2006, is presented below:

	Shares	Weighted Average Grant-Date Fair Value

Nonvested at January 1, 2006	387,506	$ 30.06
Granted	36,181	$ 41.42
Vested	(37,658)	$ 40.01
Forfeited	(600)	$ 39.24
Nonvested at March 31, 2006	385,429	$ 30.14

The weighted average grant-date fair value of shares granted during the three months ended March 31, 2006 and 2005 was $41.42 and $35.81, respectively. The total fair value of shares vested during the three months ended March 31, 2006 and 2005 was $1,560 and $896, respectively.

As of March 31, 2006, there was $8,605 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 3.7 years.

Note 10 - Noncash Investing and Financing Activities

The Company's noncash investing and financing activities were as follows for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,	
	2006	2005
Conversion of minority interest into common stock	$16,486	$ -
Additions to real estate assets accrued but not yet paid	$17,670	$7,291

Note 11 - Discontinued Operations

As of March 31, 2006, the Company had identified five community centers that met the criteria to be classified as held for sale. Total revenues for these community centers were $3,565 and $587 for the three months ended March 31, 2006 and 2005, respectively. All prior periods presented have been restated to reflect the operations of these community centers as discontinued operations. The five community centers were sold during May 2006.

Note 12 - Recent Accounting Pronouncements

In June 2005, the FASB issued 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 Issue No. 04-5 provides a framework for determining whether a general partner controls, and should consolidate, a limited partnership or a similar entity. EITF Issue No. 04-5 is effective after June 29, 2005, for all newly formed limited partnerships and for any pre-existing limited partnerships that modify their partnership agreements after that date. General partners of all other limited partnerships are required to apply the consensus no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of EITF Issue No. 04-5 did not result in any changes to the manner in which the Company accounts for its joint ventures.

In June 2005, the FASB issued FSP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5." The EITF acknowledged that the consensus in EITF Issue No. 04-5 conflicts with certain aspects of Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures." The EITF agreed that the assessment of whether a general partner, or the general partners as a group, controls a limited partnership should be consistent for all limited partnerships, irrespective of the industry within which the limited partnership operates. Accordingly, the guidance in SOP 78-9 was amended in FSP 78-9-1 to be consistent with the guidance in EITF Issue No. 04-5. The effective dates for this FSP are the same as those mentioned above in EITF Issue No. 04-5. The adoption of FSP 78-9-1 did not result in any changes to the manner in which the Company accounts for its joint ventures.

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes that are included in this Form 10-Q. In this discussion, the terms "we", "us", "our", and the "Company" refer to CBL & Associates Properties, Inc. and its subsidiaries.

Certain statements made in this section or elsewhere in this report may be deemed "forward looking statements" within the meaning of the federal securities laws. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will be attained, and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. In addition to the risk factors described in Part II, Item 1A. of this report, such risks and uncertainties include, without limitation, general industry, economic and business conditions, interest rate fluctuations, costs of capital and capital requirements, availability of real estate properties, inability to consummate acquisition opportunities, competition from other companies and retail formats, changes in retail rental rates in the Company's markets, shifts in customer demands, tenant bankruptcies or store closings, changes in vacancy rates at our properties, changes in operating expenses, changes in applicable laws, rules and regulations, the ability to obtain suitable equity and/or debt financing and the continued availability of financing in the amounts and on the terms necessary to support our future business. We disclaim any obligation to update or revise any forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking information.

EXECUTIVE OVERVIEW

We are a self-managed, self-administered, fully integrated real estate investment trust ("REIT") that is engaged in the ownership, development, acquisition, leasing, management and operation of regional shopping malls and community centers. Our shopping center properties are located in 27 states, but primarily in the southeastern and midwestern United States.

As of March 31, 2006, we owned controlling interests in seventy-two regional malls, twenty-seven associated centers (each adjacent to a regional shopping mall), seven community centers and one office building. We consolidate the financial statements of all entities in which we have a controlling financial interest or where we are the primary beneficiary of a variable interest entity. As of March 31, 2006, we owned non-controlling interests in seven regional malls and three associated centers. Because one or more of the other partners have substantive participating rights we do not control these partnerships and joint ventures and, accordingly, account for these investments using the equity method. We had two mall expansions, one open-air shopping center, two open-air shopping center expansions, two associated centers and three community centers under construction at March 31, 2006. We also hold options to acquire certain development properties owned by third parties.

14

The majority of our revenues is derived from leases with retail tenants and generally includes base minimum rents, percentage rents based on tenants' sales volumes and reimbursements from tenants for expenditures, including property operating expenses, real estate taxes and maintenance and repairs, as well as certain capital expenditures. We also generate revenues from sales of outparcel land at the properties and from sales of operating real estate assets when it is determined that we can realize the maximum value of the assets. Proceeds from such sales are generally used to reduce borrowings on our credit facilities.

RESULTS OF OPERATIONS

The following significant transactions impact the comparison of the results of operations for the three months ended March 31, 2006 to the results of operations for the three months ended March 31, 2005:

|X| We have acquired or opened eight malls, two open-air centers, two associated centers and two community centers since January 1, 2005 (collectively referred to as the "New Properties"). We do not consider a property to be one of the Comparable Properties (defined below) until the property has been open for one complete calendar year. The New Properties are as follows:

Project Name	Location	Date A
Acquisitions:		
Laurel Park Place	Livonia, MI	June 2
The Mall of Acadiana	Lafayette, LA	July 2
Layton Hills Mall	Layton, UT	Novemb
Layton Hills Convenience Center	Layton, UT	Novemb
Oak Park Mall	Overland Park, KS	Novemb
Eastland Mall	Bloomington, IL	Novemb
Hickory Point Mall	Forsyth, IL	Novemb
Triangle Town Center (50/50 joint venture)	Raleigh, NC	Novemb
Triangle Town Place (50/50 joint venture)	Raleigh, NC	Novemb
Developments:		
Imperial Valley Mall (60/40 joint venture)	El Centro, CA	March
Cobblestone Village at Royal Palm	Royal Palm Beach, FL	June 2
Chicopee Marketplace	Chicopee, MA	Septem
Southaven Towne Center	Southaven, MS	Octobe
Gulf Coast Town Center - Phase I (50/50 joint venture)	Ft. Myers, FL	Novemb

|X| Properties that were in operation as of January 1, 2005 and March 31, 2006 are referred to as the "Comparable Properties."

Comparison of the Three Months Ended March 31, 2006 to the Three Months Ended March 31, 2005

Revenues

The $30.6 million increase in revenues resulted from increases of $25.4 million attributable to the additional revenues from the New Properties and increased revenues of $6.0 million from the Comparable Properties.

Our cost recovery ratio increased slightly to 104.5% for the three months ended March 31, 2006, compared to 103.4% for the three months ended March 31, 2005.

Management, development and leasing fees decreased $2.0 million, primarily as a result of the sale of our management contracts with Galileo America, LLC in August 2005.

Other revenues increased $1.2 million due to growth in our subsidiary that provides security and maintenance services to third parties.

Expenses

The $9.3 million increase in property operating expenses, including real estate taxes and maintenance and repairs, resulted from an increase of $7.5 million attributable to the New Properties and $1.8 million from the Comparable Properties.

The $13.5 million increase in depreciation and amortization expense resulted from increases of $10.7 million from the New Properties and $2.8 million from the Comparable Properties. The increase attributable to the Comparable Properties is due to ongoing capital expenditures for renovations, expansions, tenant allowances and deferred maintenance.

General and administrative expenses increased $0.4 million primarily as a result of annual increases in salaries and benefits of existing personnel and the addition of new personnel to support our growth.

Other expense increased $0.7 million due to an increase of $0.8 million in the operating expenses of our subsidiary that provides security and maintenance services to third parties and a decrease of $0.1 million in write-offs of abandoned development projects.

Other Income and Expenses

Interest expense increased by $15.0 million due to the additional debt associated with the New Properties and an increase in the weighted average interest rate of our variable-rate debt as compared to the comparable period of the prior year.

Gain on Sales

Gain on sales of real estate assets of $0.9 million in the three months ended March 31, 2006 relates to the sale of one outparcel. Gain on sales of real estate assets of $2.7 million in the three months ended March 31, 2005 was primarily related to a gain of $1.7 million from sales of two outparcels and $1.0 million from the recognition of deferred gain related to properties that were previously sold to Galileo America, LLC.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates decreased $1.0 million primarily because of the disposition of our ownership interest in Galileo

America, LLC in August 2005.

Discontinued Operations

Discontinued operations in the three months ended March 31, 2006 reflects the results of operations of five community centers that were classified as held for sale as of March 31, 2006. Discontinued operations in the three months ended March 31, 2005 are related to five community centers that were sold in March 2005, as well as six community centers that have been sold or classified as held for sale in periods subsequent to March 31, 2005.

Operational Review

The shopping center business is, to some extent, seasonal in nature with tenants achieving the highest levels of sales during the fourth quarter because

of the holiday season. Additionally, the malls earn most of their "temporary" rents (rents from short-term tenants), during the holiday period. Thus, occupancy levels and revenue production are generally the highest in the fourth quarter of each year. Results of operations realized in any one quarter may not be indicative of the results likely to be experienced over the course of the fiscal year.

We classify our regional malls into two categories - malls that have completed their initial lease-up are referred to as stabilized malls and malls that are in their initial lease-up phase and have not been open for three calendar years are referred to as non-stabilized malls. The non-stabilized malls currently include Coastal Grand-Myrtle Beach in Myrtle Beach, SC, which opened in March 2004; Imperial Valley Mall in El Centro, CA, which opened in March 2005; Southaven Towne Center in Southaven, MS, which opened in October 2005; and Gulf Coast Town Center - Phase I in Ft. Myers, FL, which opened in November 2005.

We derive a significant amount of our revenues from the mall properties. The sources of our revenues by property type were as follows:

	Three Months Ended March 31,	
	2006	2005
Malls	92.9%	92.8%
Associated centers	3.7%	3.8%
Community centers	0.8%	0.7%
Mortgages, office building and other	2.6%	2.7%

Sales and Occupancy Costs

Mall store sales (for those tenants who occupy 10,000 square feet or less and have reported sales) increased by 2.8% on a comparable per square foot basis to $332 per square foot for the trailing twelve months ended March 31, 2006.

Occupancy costs as a percentage of sales for the stabilized malls were 13.6% (we previously reported 12.6% in the investor conference call script attached as an exhibit to our Current Report on Form 8-K dated April 28, 2006) and 13.9% for the three months ended March 31, 2006 and 2005, respectively.

Occupancy

The occupancy of the portfolio was as follows:

	At March 31, 2006	At March 31, 2005
Total portfolio occupancy	91.3%	91.3%
Total mall portfolio	91.1%	91.5%
Stabilized malls	91.3%	91.9%
Non-stabilized malls	88.2%	81.8%
Associated centers	92.0%	91.9%
Community centers	91.9%	82.9%

Leasing

Average annual base rents per square foot were as follows for each property type:

	At March 31, 2006	At March 31, 2005
Stabilized malls	$ 26.71	$ 25.45
Non-stabilized malls	$ 27.11	$ 26.92
Associated centers	$ 10.85	$ 10.05
Community centers	$ 9.44	$ 14.55
Other	$ 19.33	$ 19.25

17

The following table shows the positive results we achieved in increasing the initial and average base rents through new and renewal leasing during the three months ended March 31, 2006 for small shop spaces less than 20,000 square feet that were previously occupied, excluding junior anchors:

	Square Feet	Base Rent Per Square Foot Prior Lease (1)	Initial Base Rent Per Square Foot New Lease (2)	% Change Initial	Average Base Rent Per Square Foot New Lease (3)
Stabilized Malls	753,970	$ 26.24	$ 26.37	0.5%	$ 27.01
Associated centers	14,657	17.57	18.86	7.3%	18.87
Community centers	5,002	20.62	20.62	0.0%	21.47

773,629	$ 26.04	$ 26.19	0.6%	$ 26.82

LIQUIDITY AND CAPITAL RESOURCES

There was $41.5 million of cash and cash equivalents as of March 31, 2006, an increase of $12.7 million from December 31, 2005. Cash flows from operations are used to fund short-term liquidity and capital needs such as tenant construction allowances, capital expenditures and payments of dividends and distributions. For longer-term liquidity needs such as acquisitions, new developments, renovations and expansions, we typically rely on property specific mortgages (which are generally non-recourse), construction and term loans, revolving lines of credit, common stock, preferred stock, joint venture investments and a minority interest in the Operating Partnership.

Cash Flows

Cash provided by operating activities during the three months ended March 31, 2006, decreased by $8.3 million to $68.0 million from $76.3 million during the three months ended March 31, 2005.

Debt

During the three months ended March 31, 2006, we borrowed $72.3 million under mortgage and other notes payable and paid $13.5 million to reduce outstanding borrowings under mortgage and other notes payable. We also paid $2.5 million of costs directly related to borrowings and our credit facilities.

The following tables summarize debt based on our pro rata ownership share (including our pro rata share of unconsolidated affiliates and excluding minority investors' share of shopping center properties) because we believe this provides investors a clearer understanding of our total debt obligations and liquidity (in thousands):

	Consolidated	Minority Interests	Unconsolidated Affiliates
March 31, 2006:			
Fixed-rate debt:			
Non-recourse loans on operating properties	$ 3,262,444	$ (51,686)	$ 225,238
Variable-rate debt:			
Recourse term loans on operating properties	292,000	-	26,600
Construction loans	100,294	-	-
Lines of credit	739,150	-	-
Total variable-rate debt	1,131,444	-	26,600
Total	$ 4,393,888	$ (51,686)	$ 251,838

	Consolidated	Minority Interests	Unconsolidated Affiliates
December 31, 2005:			
Fixed-rate debt:			
Non-recourse loans on operating properties	$ 3,281,939	$ (51,950)	$ 216,026
Variable-rate debt:			
Recourse term loans on operating properties	292,000	-	26,600
Construction loans	76,831	-	-
Lines of credit	690,285	-	-
Total variable-rate debt	1,059,116	-	26,600
Total	$ 4,341,055	$ (51,950)	$ 242,626

We have four secured credit facilities with total availability of $606.0 million, of which $389.2 million was outstanding as of March 31, 2006. The secured credit facilities bear interest at rate of LIBOR plus a margin ranging from 90 to 100 basis points.

We have an unsecured credit facility with total availability of $500.0 million, of which $350.0 million was outstanding as of March 31, 2006. The unsecured credit facility bears interest at LIBOR plus a margin of 90 to 145 basis points based on our leverage.

We also have secured and unsecured lines of credit with total availability of $27.1 million that can only be used to issue letters of credit. There was $25.9 million outstanding under these lines at March 31, 2006.

The secured and unsecured credit facilities contain, among other restrictions, certain financial covenants including the maintenance of certain coverage ratios, minimum net worth requirements, and limitations on cash flow distributions. We were in compliance with all financial covenants and restrictions under our credit facilities at March 31, 2006. Additionally, certain property-specific mortgage notes payable require the maintenance of debt service coverage ratios. At March 31, 2006, the properties subject to these mortgage notes payable were in compliance with the applicable ratios.

We expect to refinance the majority of mortgage and other notes payable maturing over the next five years with replacement loans. Based on our pro rata share of total debt, there is $745.1 million of debt that is scheduled to mature before March 31, 2007. There are extension options in place that will extend the maturity of $587.2 million of this debt beyond March 31, 2007. The remaining $157.9 of debt that is maturing before March 31, 2007 is expected to be retired or refinanced.

Equity

In January 2006, holders of 1,480,066 common units of limited partnership interest in the Operating Partnership and holders of 27,582 Series J special common units ("J-SCUs") of limited partnership interest in the Operating Partnership exercised their conversion rights. We elected to issue 1,480,066 shares of common stock in exchange for the common units and to pay cash of $1.1 million in exchange for the J-SCUs.

During the three months ended March 31, 2006, we received $2.6 million in proceeds from issuances of common stock related to exercises of employee stock options and from our dividend reinvestment plan.

During the three months ended March 31, 2006, we paid dividends of $42.0 million to holders of our common stock and our preferred stock, as well as $30.1 million in distributions to the minority interest investors in our Operating Partnership and certain shopping center properties.

As a publicly traded company, we have access to capital through both the public equity and debt markets. In January 2006, we filed a shelf registration statement with the Securities and Exchange Commission authorizing us to publicly issue shares of preferred stock, common stock and warrants to purchase shares of common stock. There is no limit to the offering price or number of shares that we may issue under this shelf registration statement.

We anticipate that the combination of equity and debt sources will, for the foreseeable future, provide adequate liquidity to continue our capital programs substantially as in the past and make distributions to our shareholders in accordance with the requirements applicable to real estate investment trusts.

Our strategy is to maintain a conservative debt-to-total-market capitalization ratio in order to enhance our access to the broadest range of capital markets, both public and private. Based on our share of total consolidated and unconsolidated debt and the market value of equity, our debt-to-total-market capitalization (debt plus market value equity) ratio was as follows at March 31, 2006 (in thousands, except stock prices):

	Shares Outstanding	Stock Price (1)	
Common stock and operating partnership units	115,669	$ 42.45	$4
8.75% Series B Cumulative Redeemable Preferred Stock	2,000	$ 50.00	
7.75% Series C Cumulative Redeemable Preferred Stock	460	$ 250.00	
7.375% Series D Cumulative Redeemable Preferred Stock	700	$ 250.00	
Total market equity			5
Company's share of total debt			4
Total market capitalization			$9
Debt-to-total-market capitalization ratio			

As of March 31, 2006, our variable rate debt of $1.2 billion represents 11.7% of our total market capitalization and 25.2% of our share of total consolidated and unconsolidated debt.

Capital Expenditures

We expect to continue to have access to the capital resources necessary to expand and develop our business. Future development and acquisition activities will be undertaken as suitable opportunities arise. We do not expect to pursue these opportunities unless adequate sources of funding are available and a satisfactory budget with targeted returns on investment has been internally approved.

An annual capital expenditures budget is prepared for each property that is intended to provide for all necessary recurring and non-recurring capital expenditures. We believe that property operating cash flows, which include reimbursements from tenants for certain expenses, will provide the necessary funding for these expenditures.

The following development projects were under construction as of March 31, 2006 (dollars in thousands):

Property	Location	Project Square Feet	Our Share Of Total Costs	Our Share of Costs Incurred as of March 31, 2006	P Op
Mall Expansions:					
The District at Valley View	Roanoke, VA	75,576	$19,700	$ 922	N
Hanes Mall-Dick's Sporting Goods	Winston-Salem, NC	66,000	10,150	5,811	
Open-Air Center:					
Alamance Crossing	Burlington, NC	635,240	103,684	28,245	
Open-Air Center Expansions:					
Southaven Towne Center-Books-A-Million	Southaven, MS	15,000	2,530	2,184	
Gulf Coast Town Center Phase II	Ft. Myers, FL	750,000	109,641(a)	23,201	O
Associated Centers:					
The Plaza at Fayette Mall	Lexington, KY	187,413	38,341	20,898	
The Shoppes at St. Clair	Fairview Heights, IL	77,330	27,048	13,032	
Community Center:					
The Shoppes at Pineda Ridge	Melbourne, FL	170,009	6,584	1,171	
High Pointe Commons	Harrisburg, PA	299,935	7,271	5,963	
Lakeview Point	Stillwater, OK	207,300	21,537	9,281	
		2,483,803	$346,486	$110,708	

There are construction loans in place for the costs of Alamance Crossing, Gulf Coast Town Center, The Plaza at Fayette, High Pointe Commons and Lakeview Pointe. The remaining costs will be funded with operating cash flows and the credit facilities.

We have entered into a number of option agreements for the development of future regional malls, open-air centers and community centers. Except for the projects discussed under Developments and Expansions above, we do not have any other material capital commitments.

Dispositions

We received a total of $1.6 million in cash proceeds from the sale of one outparcel.

In May 2006, we sold five community centers for a total sales price of $106.5 million. The assets and liabilities related to these community centers were classified as held for sale as of March 31, 2006.

Other Capital Expenditures

Including our share of unconsolidated affiliates' capital expenditures and excluding minority investor's share of capital expenditures, we spent $5.0 million during the three months ended March 31, 2006 for tenant allowances, which generate increased rents from tenants over the terms of their leases. Deferred maintenance expenditures were $0.4 million for the three months ended March 31, 2006 and included $0.2 million for roof repairs and replacements, $0.1 million for resurfacing and improved lighting of parking lots and $0.1 million for other capital expenditures. Renovation expenditures were $5.2 million for the three months ended March 31, 2006.

Deferred maintenance expenditures are generally billed to tenants as common area maintenance expense, and most are recovered over a 5- to 15-year period.

Renovation expenditures are primarily for remodeling and upgrades of malls, of which approximately 30% is recovered from tenants over a 5- to 15-year period.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are disclosed in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The following discussion describes our most critical accounting policies, which are those that are both important to the presentation of our financial condition and results of operations and that require significant judgment or use of complex estimates.

Revenue Recognition

Minimum rental revenue from operating leases is recognized on a straight-line basis over the initial terms, including rent holidays, of the related leases. Certain tenants are required to pay percentage rent if their sales volumes exceed thresholds specified in their lease agreements. Percentage rent is recognized as revenue when the thresholds are achieved and the amounts become determinable.

We receive reimbursements from tenants for real estate taxes, insurance, common area maintenance, utilities and other recoverable operating expenses as provided in the lease agreements. Tenant reimbursements are recognized as revenue in the period the related operating expenses are incurred. Tenant reimbursements related to certain capital expenditures are billed to tenants over periods of 5 to 15 years and are recognized as revenue when billed.

We receive management, leasing and development fees from third parties and unconsolidated affiliates. Management fees are charged as a percentage of revenues (as defined in the management agreement) and are recognized as revenue when earned. Development fees are recognized as revenue on a pro rata basis over the development period. Leasing fees are charged for newly executed leases and lease renewals and are recognized as revenue when earned. Development and leasing fees received from unconsolidated affiliates during the development period are recognized as revenue to the extent of the third-party partners' ownership interest. Fees to the extent of our ownership interest are recorded as a reduction to our investment in the unconsolidated affiliate.

Gains on sales of real estate assets are recognized when it is determined that the sale has been consummated, the buyer's initial and continuing investment is adequate, our receivable, if any, is not subject to future subordination, and the buyer has assumed the usual risks and rewards of ownership of the asset. When we have an ownership interest in the buyer, gain is recognized to the extent of the third party partner's ownership interest and the portion of the gain attributable to our ownership interest is deferred.

Real Estate Assets

We capitalize predevelopment project costs paid to third parties. All previously capitalized predevelopment costs are expensed when it is no longer probable that the project will be completed. Once development of a project commences, all direct costs incurred to construct the project, including interest and real estate taxes, are capitalized. Additionally, certain general and administrative expenses are allocated to the projects and capitalized based on the amount of time applicable personnel work on the development project. Ordinary repairs and maintenance are expensed as incurred. Major replacements and improvements are capitalized and depreciated over their estimated useful lives.

All acquired real estate assets are accounted for using the purchase method of accounting and accordingly, the results of operations are included in the consolidated statements of operations from the respective dates of acquisition. The purchase price is allocated to (i) tangible assets, consisting of land,

buildings and improvements, and tenant improvements, (ii) and identifiable intangible assets and liabilities generally consisting of above- and below-market leases and in-place leases. We use estimates of fair value based on estimated cash flows, using appropriate discount rates, and other valuation methods to allocate the purchase price to the acquired tangible and intangible assets. Liabilities assumed generally consist of mortgage debt on the real estate assets acquired. Assumed debt with a stated interest rate that is significantly different from market interest rates is recorded at its fair value based on estimated market interest rates at the date of acquisition.

Depreciation is computed on a straight-line basis over estimated lives of 40 years for buildings, 10 to 20 years for certain improvements and 7 to 10 years for equipment and fixtures. Tenant improvements are capitalized and depreciated on a straight-line basis over the term of the related lease. Lease-related intangibles from acquisitions of real estate assets are amortized over the remaining terms of the related leases. Any difference between the face value of the debt assumed and its fair value is amortized to interest expense over the remaining term of the debt using the effective interest method.

Carrying Value of Long-Lived Assets

We periodically evaluate long-lived assets to determine if there has been any impairment in their carrying values and record impairment losses if the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts or if there are other indicators of impairment. If it is determined that an impairment has occurred, the excess of the asset's carrying value over its estimated fair value will be charged to operations. There were no impairment charges in the three months ended March 31, 2006. We recorded an impairment charge of $0.3 million during the three months ended March 31, 2005, related to the sale of five community centers.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2005, the FASB issued 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 Issue No. 04-5 provides a framework for determining whether a general partner controls, and should consolidate, a limited partnership or a similar entity. EITF Issue No. 04-5 is effective after June 29, 2005, for all newly formed limited partnerships and for any pre-existing limited partnerships that modify their partnership agreements after that date. General partners of all other limited partnerships are required to apply the consensus no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of EITF Issue No. 04-5 did not result in any changes to the manner in which we account for our joint ventures.

In June 2005, the FASB issued FSP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5." The EITF acknowledged that the consensus in EITF Issue No. 04-5 conflicts with certain aspects of Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures." The EITF agreed that the assessment of whether a general partner, or the general partners as a group, controls a limited partnership should be consistent for all limited partnerships, irrespective of the industry within which the limited partnership operates. Accordingly, the guidance in SOP 78-9 was amended in FSP 78-9-1 to be consistent with the guidance in EITF Issue No. 04-5. The effective dates for this FSP are the same as those mentioned above in EITF Issue No. 04-5. The adoption of FSP 78-9-1 did not result in any changes to the manner in which we account for our joint ventures.

IMPACT OF INFLATION

In the last three years, inflation has not had a significant impact on the Company because of the relatively low inflation rate. Substantially all tenant leases do, however, contain provisions designed to protect the Company from the impact of inflation. These provisions include clauses enabling the Company to

23

receive percentage rent based on tenant's gross sales, which generally increase as prices rise, and/or escalation clauses, which generally increase rental rates during the terms of the leases. In addition, many of the leases are for terms of less than ten years, which may enable the Company to replace existing leases with new leases at higher base and/or percentage rents if rents of the existing leases are below the then existing market rate. Most of the leases require tenants to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation.

FUNDS FROM OPERATIONS

Funds From Operations ("FFO") is a widely used measure of the operating performance of real estate companies that supplements net income determined in accordance with generally accepted accounting principles ("GAAP"). The National

Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income (computed in accordance with GAAP) excluding gains or losses on sales of operating properties, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated on the same basis. We define FFO available for distribution as defined above by NAREIT less dividends on preferred stock. Our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

We believe that FFO provides an additional indicator of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes the value of real estate assets declines predictably over time. Since values of well-maintained real estate assets have historically risen with market conditions, we believe that FFO enhances investors' understanding of our operating performance. The use of FFO as an indicator of financial performance is influenced not only by the operations of our properties and interest rates, but also by our capital structure.

FFO does not represent cash flows from operations as defined by accounting principles generally accepted in the United States, is not necessarily indicative of cash available to fund all cash flow needs and should not be considered as an alternative to net income for purposes of evaluating our operating performance or to cash flow as a measure of liquidity.

FFO increased 9.2% for the three months ended March 31, 2006 to $96.6 million compared to $88.5 million for the same period in 2005. The New Properties generated 83.5% of the growth in FFO. Consistently high portfolio occupancy, recoveries of operating expenses, increases in rental rates from renewal and replacement leasing and lower expenses related to bad debt and other charges against revenues accounted for the remaining 16.5% growth in FFO.

The calculation of FFO is as follows (in thousands):

	Three Months Ended March 31,	
	2006	2005
Net income available to common shareholders	$ 20,613	$ 25,371
Depreciation and amortization from:		
Consolidated properties	54,766	41,275
Unconsolidated affiliates	3,278	1,710
Discontinued operations	515	11
Minority interest in earnings of operating partnership	18,129	20,826
Minority investors' share of depreciation and amortization in shopping center properties	(539)	(362)
(Gain) loss on disposal of:		
Operating real estate assets	-	(223)
Discontinued operations	-	32
Depreciation and amortization of non-real estate assets	(195)	(179)
Funds from operations	$ 96,567	$ 88,461

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk on our debt obligations and derivative financial instruments. We may elect to use derivative financial instruments to manage our exposure to changes in interest rates, but will not use them for speculative purposes. Our interest rate risk management policy requires that derivative instruments be used for hedging purposes only and that they be entered into only with major financial institutions based on their credit ratings and other factors.

Based on our proportionate share of consolidated and unconsolidated variable rate debt at March 31, 2006, a 0.5% increase or decrease in interest rates on this variable-rate debt would decrease or increase annual cash flows by approximately $5.8 million and, after the effect of capitalized interest, annual earnings by approximately $5.5 million.

Based on our proportionate share of total consolidated and unconsolidated debt at March 31, 2006, a 0.5% increase in interest rates would decrease the fair value of debt by approximately $72.6 million, while a 0.5% decrease in interest rates would increase the fair value of debt by approximately $74.9 million.

We did not have any derivative financial instruments during the three months ended March 31, 2006 or at March 31, 2005.

ITEM 4: Controls and Procedures

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of its effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of the end of the period covered by this quarterly report, an evaluation, under Rule 13a-15 of the Securities Exchange Act of 1934 was performed under the supervision of our Chief Executive Officer and Chief Financial Officer and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. No change in our internal control over financial reporting occurred during the period covered by this quarterly report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

None

ITEM 1A. Risk Factors

The following information updates the information disclosed in "Item 1A - Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2005, by providing information that is current as of March 31, 2006:

RISKS RELATED TO REAL ESTATE INVESTMENTS

REAL PROPERTY INVESTMENTS ARE SUBJECT TO VARIOUS RISKS, MANY OF WHICH ARE BEYOND OUR CONTROL, THAT COULD CAUSE DECLINES IN THE OPERATING REVENUES AND/OR THE UNDERLYING VALUE OF ONE OR MORE OF OUR PROPERTIES.

A number of factors may decrease the income generated by a retail shopping center property, including:

|X| National, regional and local economic climates, which may be negatively impacted by plant closings, industry slowdowns, adverse weather conditions, natural disasters, and other factors which tend to reduce consumer spending on retail goods.

|X| Local real estate conditions, such as an oversupply of, or reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants.

|X| Increased operating costs, such as increases in real property taxes, utility rates and insurance premiums.

|X| Perceptions by retailers or shoppers of the safety, convenience and attractiveness of the shopping center.

|X| The willingness and ability of the shopping center's owner to provide capable management and maintenance services.

|X| The convenience and quality of competing retail properties and other retailing options, such as the Internet.

In addition, other factors may adversely affect the value of our Properties without affecting their current revenues, including:

|X| Adverse changes in governmental regulations, such as local zoning and land use laws, environmental regulations or local tax structures that could inhibit our ability to proceed with development, expansion, or renovation activities that otherwise would be beneficial to our Properties.

|X| Potential environmental or other legal liabilities that reduce the amount of funds available to us for investment in our Properties.

|X| Any inability to obtain sufficient financing (including both construction financing and permanent debt), or the inability to obtain such financing on commercially favorable terms, to fund new developments, acquisitions, and property expansions and renovations which otherwise would benefit our Properties.

|X| An environment of rising interest rates, which could negatively impact both the value of commercial real estate such as retail shopping centers and the overall retail climate.

THE LOSS OF ONE OR MORE SIGNIFICANT TENANTS, DUE TO BANKRUPTCIES OR AS A RESULT OF ONGOING CONSOLIDATIONS IN THE RETAIL INDUSTRY, COULD ADVERSELY AFFECT BOTH THE OPERATING REVENUES AND VALUE OF OUR PROPERTIES.

Regional malls are typically anchored by well-known department stores and other significant tenants who generate shopping traffic at the mall. A decision by an anchor tenant or other significant tenant to cease operations at one or more Properties could have a material adverse effect on those Properties and, by extension, on our financial condition and results of operations. The closing of an anchor or other significant tenant may allow other anchors and/or tenants at an affected Property to terminate their leases, to seek rent relief and/or cease operating their stores or otherwise adversely affect occupancy at the Property. In addition, key tenants at one or more Properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry. The bankruptcy and/or closure of one or more significant tenants, if we are not able to successfully re-tenant the affected space, could have a material adverse effect on both the operating revenues and underlying value of the Properties involved.

WE MAY INCUR SIGNIFICANT COSTS RELATED TO COMPLIANCE WITH ENVIRONMENTAL LAWS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS, CASH FLOW AND THE FUNDS AVAILABLE TO US TO PAY DIVIDENDS.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in that real property. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. The costs of investigation, removal or remediation of hazardous or toxic substances may be substantial. In addition, the presence of hazardous or toxic substances, or the failure to remedy environmental hazards properly, may adversely affect the owner's or operator's ability to sell or rent affected real property or to borrow money using affected real property as collateral.

Persons or entities that arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous or toxic substances at the disposal or treatment facility, whether or not that facility is owned or operated by the person or entity arranging for the disposal or treatment of hazardous or toxic substances. Laws exist that impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos-containing materials. In connection with our ownership, operation, management, development and redevelopment of our Properties, or any other Properties we acquire in the future, we may be potentially liable under these laws and may incur costs in responding to these liabilities, which could have an adverse effect on our results of operations, cash flow and the funds available to us to pay dividends.

RISKS RELATED TO OUR BUSINESS AND THE MARKET FOR OUR STOCK

WE MAY ELECT NOT TO PROCEED WITH CERTAIN DEVELOPMENT PROJECTS ONCE THEY HAVE BEEN UNDERTAKEN, RESULTING IN CHARGES THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS FOR THE PERIOD IN WHICH THE CHARGE IS TAKEN.

We intend to pursue development and expansion activities as opportunities arise. In connection with any development or expansion, we will incur various risks including the risk that development or expansion opportunities explored by us may be abandoned and the risk that construction costs of a project may exceed original estimates, possibly making the project not profitable. Other risks include the risk that we may not be able to refinance construction loans which are generally with full recourse to us, the risk that occupancy rates and rents at a completed project will not meet projections and will be insufficient to make the project profitable, and the risk that we will not be able to obtain anchor, mortgage lender and property partner approvals for certain expansion activities. In the event of an unsuccessful development project, our loss could exceed our investment in the project.

We have in the past elected not to proceed with certain development projects and anticipate that we will do so again from time to time in the future. If we elect not to proceed with a development opportunity, the development costs ordinarily will be charged against income for the then-current period. Any such charge could have a material adverse effect on our results of operations for the period in which the charge is taken.

COMPETITION FROM OTHER RETAIL FORMATS COULD ADVERSELY AFFECT THE REVENUES GENERATED BY OUR PROPERTIES, RESULTING IN A REDUCTION IN FUNDS AVAILABLE FOR DISTRIBUTION TO OUR STOCKHOLDERS.

There are numerous shopping facilities that compete with our Properties in attracting retailers to lease space. In addition, retailers at our Properties face competition for customers from:

|X| Discount shopping centers

|X| Outlet malls

|X| Wholesale clubs

|X| Direct mail

|X| Telemarketing

|X| Television shopping networks

|X| Shopping via the Internet

Each of these competitive factors could adversely affect the amount of rents that we are able to collect from our tenants, thereby reducing our revenues and the funds available for distribution to our stockholders.

SINCE OUR SHOPPING CENTER PROPERTIES ARE LOCATED PRINCIPALLY IN THE SOUTHEASTERN AND MIDWESTERN UNITED STATES, OUR FINANCIAL POSITION, RESULTS OF OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS ARE SUBJECT GENERALLY TO ECONOMIC CONDITIONS IN THESE REGIONS.

Our properties are located principally in the southeastern and midwestern Unites States. Our properties located in the southeastern United States accounted for approximately 51.7% of our total revenues from all properties for the three months ended March 31, 2006 and currently include 40 Malls, 20 Associated Centers, five Community Centers and one Office Building. Our properties located in the midwestern United States accounted for approximately 23.8% of our total revenues from all properties for the three months March 31, 2006 and currently include 20 Malls and three Associated Centers. Our results of operations and funds available for distribution to shareholders therefore will be subject generally to economic conditions in the southeastern and midwestern United States. We will continue to look for opportunities to geographically diversify our portfolio in order to minimize dependency on any particular region; however, the expansion of the portfolio through both acquisitions and developments is contingent on many factors including consumer demand, competition and economic conditions.

CERTAIN OF OUR SHOPPING CENTER PROPERTIES ARE SUBJECT TO OWNERSHIP INTERESTS HELD BY THIRD PARTIES, WHOSE INTERESTS MAY CONFLICT WITH OURS AND THEREBY CONSTRAIN US FROM TAKING ACTIONS CONCERNING THESE PROPERTIES WHICH OTHERWISE

WOULD BE IN THE BEST INTERESTS OF THE COMPANY AND OUR STOCKHOLDERS.

We own partial interests in eight malls, six associated centers, three community centers and one office building. We manage all of these properties except for Governor's Square, Governor's Plaza and Kentucky Oaks. A property manager affiliated with the managing general partner performs the property management services for these properties and receives a fee for its services. The managing partner of each of these three Properties controls the cash flow distributions, although our approval is required for certain major decisions. Springdale Center in Mobile, AL and Wilkes-Barre Township Marketplace in Wilkes-Barre Township, PA, are managed by a third party that receives a fee for its services. Springdale Center and Wilkes-Barre Township Marketplace were sold in May 2006.

Where we serve as managing general partner of the partnerships that own our properties, we may have certain fiduciary responsibilities to the other partners

in those partnerships. In certain cases, the approval or consent of the other partners is required before we may sell, finance, expand or make other significant changes in the operations of such properties. To the extent such approvals or consents are required, we may experience difficulty in, or may be prevented from, implementing our plans with respect to expansion, development, financing or other similar transactions with respect to such properties.

With respect to Governor's Square, Governor's Plaza and Kentucky Oaks we do not have day-to-day operational control or control over certain major decisions, including the timing and amount of distributions, which could result in decisions by the managing general partner that do not fully reflect our interests. This includes decisions relating to the requirements that we must satisfy in order to maintain our status as a REIT for tax purposes. However, decisions relating to sales, expansion and disposition of all or substantially all of the assets and financings are subject to approval by the Operating Partnership.

CERTAIN AGREEMENTS WITH PRIOR OWNERS OF PROPERTIES THAT WE HAVE ACQUIRED MAY INHIBIT OUR ABILITY TO ENTER INTO FUTURE SALE OR REFINANCING TRANSACTIONS AFFECTING SUCH PROPERTIES, WHICH OTHERWISE WOULD BE IN THE BEST INTERESTS OF THE COMPANY AND OUR STOCKHOLDERS.

Certain Properties that we originally acquired from third parties had unrealized gain attributable to the difference between the fair market value of such Properties and the third parties' adjusted tax basis in the Properties immediately prior to their contribution of such Properties to the Operating Partnership pursuant to our acquisition. For this reason, a taxable sale by us of any of such Properties, or a significant reduction in the debt encumbering such Properties, could result in adverse tax consequences to the third parties who contributed these properties in exchange for interests in the Operating Partnership. Under the terms of these transactions, we have generally agreed that we either will not sell or refinance such an acquired Property for a number of years in any transaction that would trigger adverse tax consequences for the parties from whom we acquired such Property, or else we will reimburse such parties for all or a portion of the additional taxes they are required to pay as a result of the transaction. Accordingly, these agreements may cause us not to engage in future sale or refinancing transactions affecting such Properties which otherwise would be in the best interests of the Company and our stockholders, or may increase the costs to us of engaging in such transactions.

THE LOSS OR BANKRUPTCY OF A MAJOR TENANT COULD NEGATIVELY AFFECT OUR FINANCIAL

POSITION AND RESULTS OF OPERATIONS.

In the three months ended March 31, 2006, no tenant accounted for 5% or more of revenues except for The Limited Stores Inc. (including Intimate Brands, Inc.), which accounted for approximately 5.2% of our total revenues. The loss or bankruptcy of this key tenant could negatively affect our financial position and results of operations.

OUR FINANCIAL POSITION, RESULTS OF OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS COULD BE ADVERSELY AFFECTED BY ANY ECONOMIC DOWNTURN AFFECTING THE OPERATING RESULTS AT OUR PROPERTIES IN THE NASHVILLE, TENNESSEE AREA, WHICH IS OUR SINGLE LARGEST MARKET.

Our properties located in Nashville, TN accounted for 5.3% of our revenues for the three months ended March 31, 2006. No other market accounted for more than 3.1% of our revenues for the three months ended March 31, 2006. Our financial position and results of operations will therefore be affected by the results experienced at properties located in the Nashville, TN area.

RISING INTEREST RATES COULD BOTH INCREASE OUR BORROWING COSTS, THEREBY ADVERSELY AFFECTING OUR CASH FLOW AND THE AMOUNTS AVAILABLE FOR DISTRIBUTIONS TO OUR STOCKHOLDERS, AND DECREASE OUR STOCK PRICE, IF INVESTORS SEEK HIGHER YIELDS THROUGH OTHER INVESTMENTS.

An environment of rising interest rates could lead holders of our securities to seek higher yields through other investments, which could adversely affect the market price of our stock. One of the factors that may influence the price of our stock in public markets is the annual distribution rate we pay as compared with the yields on alternative investments. Numerous other factors, such as governmental regulatory action and tax laws, could have a significant impact on the future market price of our stock. In addition, increases in market interest rates could result in increased borrowing costs for us, which may adversely affect our cash flow and the amounts available for distributions to our stockholders.

RECENT CHANGES IN THE U.S. FEDERAL INCOME TAX TREATMENT OF CORPORATE DIVIDENDS MAY MAKE OUR STOCK LESS ATTRACTIVE TO INVESTORS, THEREBY LOWERING OUR STOCK PRICE.

In May 2003, the maximum U.S. federal income tax rate for dividends received by individual taxpayers was reduced generally from 38.6% to 15% (from January 1, 2003 through 2008). However, dividends payable by REITs are generally not eligible for such treatment. Although this legislation did not have a directly adverse effect on the taxation of REITs or dividends paid by REITs, the more favorable treatment for non-REIT dividends could cause individual investors to consider investments in non-REIT corporations as more attractive relative to an investment in a REIT, which could have an adverse impact on the market price of our stock.

CERTAIN OF OUR CREDIT FACILITIES, THE LOSS OF WHICH COULD HAVE A MATERIAL, ADVERSE IMPACT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS, ARE CONDITIONED UPON THE OPERATING PARTNERSHIP CONTINUING TO BE MANAGED BY CERTAIN MEMBERS OF ITS CURRENT SENIOR MANAGEMENT AND BY SUCH MEMBERS OF SENIOR MANAGEMENT CONTINUING TO OWN A SIGNIFICANT DIRECT OR INDIRECT EQUITY INTEREST IN THE OPERATING PARTNERSHIP.

Certain of the Operating Partnership's lines of credit are conditioned upon the Operating Partnership continuing to be managed by certain members of its current senior management and by such members of senior management continuing to own a significant direct or indirect equity interest in the Operating Partnership (including any shares of our common stock owned by such members of senior management may hold in us). If the failure of one or more of these conditions resulted in the loss of these credit facilities and we were unable to obtain suitable replacement financing, such loss could have a material, adverse impact on our financial position and results of operations.

OUR INSURANCE COVERAGE MAY CHANGE IN THE FUTURE, AND MAY NOT INCLUDE COVERAGE FOR ACTS OF TERRORISM.

The general liability and property casualty insurance policies on our Properties currently include loss resulting from acts of terrorism, whether foreign or domestic. The cost of general liability and property casualty insurance policies that include coverage for acts of terrorism has risen significantly post-September 11, 2001. The cost of coverage for acts of terrorism is currently mitigated by the Terrorism Risk Insurance Act ("TRIA"). If TRIA is not extended beyond its current expiration date of December 31, 2007, we may incur higher insurance costs and greater difficulty in obtaining insurance that covers terrorist-related damages. Our tenants may also experience similar difficulties. We are unable at this time to predict whether we will continue our policy coverage as currently structured when our policies are up for renewal on December 31, 2006.

RISKS RELATED TO FEDERAL INCOME TAX LAWS

IF WE FAIL TO QUALIFY AS A REIT IN ANY TAXABLE YEAR, OUR FUNDS AVAILABLE FOR DISTRIBUTION TO STOCKHOLDERS WILL BE REDUCED.

We intend to continue to operate so as to qualify as a REIT under the Internal Revenue Code. Although we believe that we are organized and operate in such a manner, no assurance can be given that we currently qualify and in the future will continue to qualify as a REIT. Such qualification involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify. In addition, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification or its corresponding federal income tax consequences.

If in any taxable year we were to fail to qualify as a REIT, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to federal income tax on our taxable income at regular corporate rates. Unless entitled to relief under certain statutory provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, the funds available for distribution to our stockholders would be reduced for each of the years involved. We currently intend to operate in a manner designed to qualify as a REIT. However, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors, with the consent of a majority of our stockholders, to revoke the REIT election.

ANY ISSUANCE OR TRANSFER OF OUR CAPITAL STOCK TO ANY PERSON IN EXCESS OF THE

APPLICABLE LIMITS ON OWNERSHIP NECESSARY TO MAINTAIN OUR STATUS AS A REIT WOULD BE DEEMED VOID AB INITIO, AND THOSE SHARES WOULD AUTOMATICALLY BE TRANSFERRED TO A NON-AFFILIATED CHARITABLE TRUST.

To maintain our status as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. Our certificate of incorporation generally prohibits ownership of more than 6% of the outstanding shares of our capital stock by any single stockholder determined by vote, value or number of shares (other than Charles Lebovitz, our Chief Executive Officer, David Jacobs, Richard Jacobs and their affiliates under the Internal Revenue Code's attribution rules). The affirmative vote of 66 (2)/3% of our outstanding voting stock is required to amend this provision.

Our board of directors may, subject to certain conditions, waive the applicable ownership limit upon receipt of a ruling from the IRS or an opinion of counsel to the effect that such ownership will not jeopardize our status as a REIT. Absent any such waiver, however, any issuance or transfer of our capital stock to any person in excess of the applicable ownership limit or any issuance or transfer of shares of such stock which would cause us to be beneficially owned by fewer than 100 persons, will be null and void and the intended transferee will acquire no rights to the stock. Instead, such issuance or transfer with respect to that number of shares that would be owned by the transferee in excess of the ownership limit provision would be deemed void ab initio and those shares would automatically be transferred to a trust for the exclusive benefit of a charitable beneficiary to be designated by us, with a trustee designated by us, but who would not be affiliated with us or with the prohibited owner. Any acquisition of our capital stock and continued holding or ownership of our capital stock constitutes, under our certificate of incorporation, a continuous representation of compliance with the applicable ownership limit.

IN ORDER TO MAINTAIN OUR STATUS AS A REIT AND AVOID THE IMPOSITION OF CERTAIN ADDITIONAL TAXES UNDER THE INTERNAL REVENUE CODE, WE MUST SATISFY MINIMUM REQUIREMENTS FOR DISTRIBUTIONS TO SHAREHOLDERS, WHICH MAY LIMIT THE AMOUNT OF CASH WE MIGHT OTHERWISE HAVE BEEN ABLE TO RETAIN FOR USE IN GROWING OUR BUSINESS.

To maintain our status as a REIT under the Internal Revenue Code, we generally will be required each year to distribute to our stockholders at least 90% of our taxable income after certain adjustments. However, to the extent that

we do not distribute all of our net capital gain or distribute at least 90% but less than 100% of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at ordinary and capital gains corporate tax rates, as the case may be. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us during each calendar year are less than the sum of 85% of our ordinary income for such calendar year, 95% of our capital gain net income for the calendar year and any amount of such income that was not distributed in prior years. In the case of property acquisitions, including our initial formation, where individual properties are contributed to our Operating Partnership for Operating Partnership units, we have assumed the tax basis and depreciation schedules of the entities' contributing properties. The relatively low tax basis of such contributed properties may have the effect of increasing the cash amounts we are required to distribute as dividends, thereby potentially limiting the amount of cash we might otherwise have been able to retain for use in growing our business. This low tax basis may also have the effect of reducing or eliminating the portion of distributions made by us that are treated as a non-taxable return of capital.

RISKS RELATED TO OUR ORGANIZATIONAL STRUCTURE

THE OWNERSHIP LIMIT DESCRIBED ABOVE, AS WELL AS CERTAIN PROVISIONS IN OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND BYLAWS, OUR STOCKHOLDER RIGHTS PLAN, AND CERTAIN PROVISIONS OF DELAWARE LAW MAY HINDER ANY ATTEMPT TO ACQUIRE US.

Certain provisions of Delaware law, as well as of our amended and restated certificate of incorporation and bylaws, and agreements to which we are a party, may have the effect of delaying, deferring or preventing a third party from making an acquisition proposal for us and may inhibit a change in control that some, or a majority, of our stockholders might believe to be in their best interest or that could give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares. These provisions and agreements may be summarized as follows:

|X| THE OWNERSHIP LIMIT - As described above, to maintain our status as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. Our certificate of incorporation generally prohibits ownership of more than 6% of the outstanding shares of our capital stock by any single stockholder determined by value (other than Charles Lebovitz, David Jacobs, Richard Jacobs and their affiliates under the Internal Revenue Code's attribution rules). In addition to preserving our status as a REIT, the ownership limit may have the effect of precluding an acquisition of control of us without the approval of our board of directors.

|X| CLASSIFIED BOARD OF DIRECTORS; REMOVAL FOR CAUSE - Our certificate of incorporation provides for a board of directors divided into three classes, with one class elected each year to serve for a three-year term. As a result, at least two annual meetings of stockholders may be required for the stockholders to change a majority of our board of directors. In addition, our stockholders can only remove directors for cause and only by a vote of 75% of the outstanding voting stock. Collectively, these provisions make it more difficult to change the composition of our board of directors and may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts.

|X| ADVANCE NOTICE REQUIREMENTS FOR STOCKHOLDER PROPOSALS - Our bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures generally require advance written notice of any such proposals, containing prescribed information, to be given to our Secretary at our principal executive offices not less than 60 days nor more than 90 days prior to the meeting.

|X| VOTE REQUIRED TO AMEND BYLAWS - A vote of 66 (2)/3% of the outstanding voting stock is necessary to amend our bylaws.

|X| STOCKHOLDER RIGHTS PLAN - We have a stockholder rights plan, which may delay, deter or prevent a change in control unless the acquirer negotiates with our board of directors and the board of directors approves the transaction. The rights plan generally would be triggered if an entity, group or person acquires (or announces a plan to acquire) 15% or more of our common stock. If such transaction is not approved by our board of directors, the effect of the stockholder rights plan would be to allow our stockholders to purchase shares of our common stock, or the common stock or other merger consideration paid by the acquiring entity, at an effective 50% discount.

|X| DELAWARE ANTI-TAKEOVER STATUTE - We are a Delaware corporation and are subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an "interested stockholder" (defined generally as a person owning 15% or more of a company's outstanding voting stock) from engaging in a "business combination" (as defined in Section 203) with us for three years following the date that person becomes an interested stockholder unless:

(a) before that person became an interested holder, our board of directors approved the transaction in which the interested holder became an interested stockholder or approved the business combination;

(b) upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owns 85% of our voting stock outstanding at the time the transaction commenced (excluding stock held by directors who are also officers and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or

(c) following the transaction in which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least two-thirds of our outstanding voting stock not owned by the interested stockholder.

Under Section 203, these restrictions also do not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of certain extraordinary transactions involving us and a person who was not an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of our directors, if that extraordinary transaction is approved or not opposed by a majority of the directors who were directors before any person became an interested stockholder in the previous three years or who were recommended for election or elected to succeed such directors by a majority of directors then in office.

CERTAIN OWNERSHIP INTERESTS HELD BY MEMBERS OF OUR SENIOR MANAGEMENT MAY TEND TO CREATE CONFLICTS OF INTEREST BETWEEN SUCH INDIVIDUALS AND THE INTERESTS OF THE COMPANY AND OUR OPERATING PARTNERSHIP.

- |X| RETAINED PROPERTY INTERESTS - Members of our senior management own interests in certain real estate properties that were retained by them at the time of our initial public offering. These consist primarily of outparcels at certain of our properties, which are being offered for sale through our management company. As a result, these members of our senior management have interests that could conflict with the interests of the Company, our shareholders and the Operating Partnership with respect to any transaction involving these properties.

- |X| TAX CONSEQUENCES OF THE SALE OR REFINANCING OF CERTAIN PROPERTIES - Since certain of our properties had unrealized gain attributable to the difference between the fair market value and adjusted tax basis in such properties immediately prior to their contribution to the Operating Partnership, a taxable sale of any such properties, or a significant reduction in the debt encumbering such properties, could cause adverse tax consequences to the members of our senior management who owned interests in our predecessor entities. As a result, members of our senior management might not favor a sale of a property or a significant reduction in debt even though such a sale or reduction could be beneficial to us and the Operating Partnership. Our bylaws provide that any decision relating to the potential sale of any property that would result in a disproportionately higher taxable income for members of our senior management than for us and our stockholders, or that would result in a significant reduction in such property's debt, must be made by a majority of the independent directors of the board of directors. The Operating Partnership is required, in the case of such a sale, to distribute to its partners, at a minimum, all of the net cash proceeds from such sale up to an amount reasonably believed necessary to enable members of our senior management to pay any income tax liability arising from such sale.

- |X| INTERESTS IN OTHER ENTITIES; POLICIES OF THE BOARD OF DIRECTORS - Certain entities owned in whole or in part by members of our senior management, including the construction company that built or renovated most of our properties, may continue to perform services for, or transact business with, us and the Operating Partnership. Furthermore, certain property tenants are affiliated with members of our senior management. Accordingly, although our bylaws provide that any contract or transaction between us or the Operating Partnership and one or more of our directors or officers, or between us or the Operating Partnership and any other entity in which one or more of our directors or officers are directors or officers or have a financial interest, must be approved by our disinterested directors or stockholders after the material facts of the relationship or interest of the contract or transaction are disclosed or are known to them, these affiliations could nevertheless create conflicts between the interests of these members of senior management and the interests of the Company, our shareholders and the Operating Partnership in relation to any transactions between us and any of these entities.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) Effective as of March 6, 2006, we issued 1,480,066 shares of common stock to seven holders of common units in the Operating

Partnership who exercised their exchange rights, in exchange for 1,480,066 common units of limited partnership interest. We believe the issuance of these shares was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof because this issuance did not involve a public offering or sale. No underwriters, brokers or finders were involved in this transaction.

34

(c) The following table presents information with respect to repurchases of common stock made by us during the three months ended March 31, 2006:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number Shares that May Be Purchased Under the Pla
January 1-31, 2006	--	--	--	--
February 1-28, 2006	--	--	--	--
March 1-31, 2006	636	$ 42.15	--	--
Total	636	$ 42.15	--	--

ITEM 3: Defaults Upon Senior Securities

None

ITEM 4: Submission of Matters to a Vote of Security Holders

None

ITEM 5: Other Information

None

ITEM 6: Exhibits

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends

31.1 Certification pursuant to Securities Exchange Act Rule 13a-14(a) by the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Securities Exchange Act Rule 13a-14(a) by the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to Securities Exchange Act Rule 13a-14(b) by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to Securities Exchange Act Rule 13a-14(b) by the Chief Financial Officer as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

CBL & ASSOCIATES PROPERTIES, INC.

/s/ John N. Foy

John N. Foy
Vice Chairman of the Board, Chief Financial Officer and Treasurer

Date: May 10, 2006

INDEX TO EXHIBITS

Exhibit Number	Description
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
31.1	Certification pursuant to Securities Exchange Act Rule 13a-14(a) by the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Securities Exchange Act Rule 13a-14(a) by the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Securities Exchange Act Rule 13a-14(b) by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to Securities Exchange Act Rule 13a-14(b) by the Chief Financial Officer as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.