WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarter ended September 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from [__________] to [__________]

Commission file number 1-9876

Weingarten Realty Investors

(Exact name of registrant as specified in its charter)

TEXAS	74-1464203
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2600 Citadel Plaza Drive P.O. Box 924133 Houston, Texas	77292-4133
(Address of principal executive offices)	(Zip Code)

(713) 866-6000

(Registrant s telephone number)

(Former name, former address and former fiscal

year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

(Do not check if a smaller reporting company)

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

As of October 31, 2011, there were 120,839,685 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

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PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

WEINGARTEN REALTY INVESTORS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Rentals, net	$ 135,283	$ 129,800	$ 393,971	$ 389,543
Other	3,282	4,318	11,646	10,765
Total	138,565	134,118	405,617	400,308
Expenses:				
Depreciation and amortization	38,872	35,921	114,499	107,466
Operating	25,422	24,658	75,242	74,535
Real estate taxes, net	17,213	14,796	48,894	46,422
Impairment loss	35,344	4,941	55,006	21,002
General and administrative	5,777	6,443	18,939	19,096
Total	122,628	86,759	312,580	268,521
Operating Income	15,937	47,359	93,037	131,787
Interest Expense, net	(35,814)	(36,579)	(110,005)	(111,124)
Interest and Other (Expense) Income, net	(494)	3,070	2,984	6,905
Equity in (Loss) Earnings of Real Estate Joint Ventures and Partnerships, net	(3,034)	3,455	3,942	9,321
Loss on Redemption of Convertible Senior Unsecured Notes	-	-	-	(135)
Gain on Land and Merchant Development Sales	383	-	1,346	-
(Provision) Benefit for Income Taxes	(471)	23	(229)	(93)
(Loss) Income from Continuing Operations	(23,493)	17,328	(8,925)	36,661
Operating (Loss) Income from Discontinued Operations	(13,060)	1,787	(7,734)	4,786
Gain on Sale of Property from Discontinued Operations	589	-	589	897
(Loss) Income from Discontinued Operations	(12,471)	1,787	(7,145)	5,683
Gain on Sale of Property	6	126	239	689
Net (Loss) Income	(35,958)	19,241	(15,831)	43,033
Less: Net Loss (Income) Attributable to Noncontrolling Interests	2,738	(1,712)	410	(3,093)
Net (Loss) Income Adjusted for Noncontrolling Interests	(33,220)	17,529	(15,421)	39,940
Dividends on Preferred Shares	(8,869)	(8,869)	(26,607)	(26,607)
Net (Loss) Income Attributable to Common Shareholders	$ (42,089)	$ 8,660	$ (42,028)	$ 13,333

Earnings Per Common Share - Basic:								
(Loss) income from continuing operations attributable to common shareholders	$	(0.25)	$	0.06	$	(0.29)	$	0.06
(Loss) income from discontinued operations		(0.10)		0.01		(0.06)		0.05
Net (loss) income attributable to common shareholders	$	(0.35)	$	0.07	$	(0.35)	$	0.11
Earnings Per Common Share - Diluted:								
(Loss) income from continuing operations attributable to common shareholders	$	(0.25)	$	0.06	$	(0.29)	$	0.06
(Loss) income from discontinued operations		(0.10)		0.01		(0.06)		0.05
Net (loss) income attributable to common shareholders	$	(0.35)	$	0.07	$	(0.35)	$	0.11
Comprehensive (Loss) Income:								
Net (Loss) Income	$	(35,958)	$	19,241	$	(15,831)	$	43,033
Net unrealized loss on derivatives		(542)		(262)		(832)		(262)
Amortization of loss on derivatives		654		619		1,892		1,947
Comprehensive (Loss) Income		(35,846)		19,598		(14,771)		44,718
Comprehensive Loss (Income) Attributable to Noncontrolling Interests		2,738		(1,712)		410		(3,093)
Comprehensive (Loss) Income Adjusted for Noncontrolling Interests	$	(33,108)	$	17,886	$	(14,361)	$	41,625

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	September 30, 2011	December 31, 2010
ASSETS		
Property	$ 4,659,001	$ 4,777,794
Accumulated Depreciation	(1,030,027)	(971,249)
Property Held for Sale, net	122,360	-
Property, net *	3,751,334	3,806,545
Investment in Real Estate Joint Ventures and Partnerships, net	342,672	347,526
Total	4,094,006	4,154,071
Notes Receivable from Real Estate Joint Ventures and Partnerships	149,814	184,788
Unamortized Debt and Lease Costs, net	119,207	116,437
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $10,297 in 2011 and $10,137 in 2010) *	84,203	95,859
Cash and Cash Equivalents *	20,181	23,859
Restricted Deposits and Mortgage Escrows	11,018	10,208
Other, net	194,008	222,633
Total Assets	$ 4,672,437	$ 4,807,855
LIABILITIES AND EQUITY		
Debt, net *	$ 2,605,737	$ 2,589,448
Accounts Payable and Accrued Expenses	117,307	126,767
Other, net	106,671	111,383
Total Liabilities	2,829,715	2,827,598
Commitments and Contingencies		
Equity:		
Shareholders Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued and outstanding in 2011 and 2010; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2011 and 2010; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 140 shares issued and outstanding in 2011 and 2010; liquidation preference $350,000	4	4
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 275,000; shares issued and outstanding: 120,840 in 2011 and 120,492 in 2010	3,641	3,630
Accumulated Additional Paid-In Capital	1,982,118	1,969,905
Net Income Less Than Accumulated Dividends	(293,446)	(151,780)
Accumulated Other Comprehensive Loss	(20,714)	(21,774)

Total Shareholders Equity	1,671,607	1,799,989
Noncontrolling Interests	171,115	180,268
Total Equity	1,842,722	1,980,257
Total Liabilities and Equity	$ 4,672,437	$ 4,807,855
* Consolidated Variable Interest Entities Assets and Liabilities included in the above balances (See Note 3):		
Property, net	$ 230,042	$ 233,706
Accrued Rent and Accounts Receivable, net	8,467	9,514
Cash and Cash Equivalents	10,695	10,397
Debt, net	279,998	281,519

See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2011	**2010**
Cash Flows from Operating Activities:		
Net (Loss) Income	$ (15,831)	$ 43,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118,833	111,446
Amortization of deferred financing costs and debt discount	5,072	3,861
Impairment loss	72,739	21,002
Equity in earnings of real estate joint ventures and partnerships, net	(3,942)	(9,321)
Gain on acquisition	(4,559)	-
Gain on land and merchant development sales	(1,346)	-
Gain on sale of property	(828)	(1,586)
Loss on redemption of convertible senior unsecured notes	-	135
Distributions of income from real estate joint ventures and partnerships, net	1,775	1,289
Changes in accrued rent and accounts receivable, net	9,270	5,821
Changes in other assets, net	(17,856)	(14,122)
Changes in accounts payable, accrued expenses and other liabilities, net	(18,853)	(11,969)
Other, net	8,211	8,462
Net cash provided by operating activities	152,685	158,051
Cash Flows from Investing Activities:		
Investment in property	(114,622)	(85,338)
Proceeds from sale and disposition of property, net	52,549	17,302
Change in restricted deposits and mortgage escrows	(668)	(49,882)
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	(2,756)	(7,602)
Collections	14,980	15,127
Real estate joint ventures and partnerships:		
Investments	(18,583)	(1,213)
Distributions of capital	13,714	12,296
Other, net	16,545	1,522
Net cash used in investing activities	(38,841)	(97,788)
Cash Flows from Financing Activities:		
Proceeds from issuance of:		
Debt	215,750	336
Common shares of beneficial interest, net	3,935	2,030
Principal payments of debt	(317,559)	(100,860)
Changes in unsecured revolving credit facilities	115,300	50,000
Common and preferred dividends paid	(124,277)	(118,472)
Debt issuance costs paid	(3,850)	(6,367)
Other, net	(6,821)	(8,700)

Net cash used in financing activities	(117,522)	(182,033)
Net decrease in cash and cash equivalents	(3,678)	(121,770)
Cash and cash equivalents at January 1	23,859	153,584
Cash and cash equivalents at September 30	$ 20,181	$ 31,814

See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In thousands, except per share amounts)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Accumulated Additional Paid-In Capital	Net Income Less Than Accumulated Dividends	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2010	$ 8	$ 3,615	$ 1,958,975	$ (37,350)	$ (23,958)	$ 205,366	$ 2,106,656
Net income				39,940		3,093	43,033
Shares issued in exchange for noncontrolling interests		1	745			(746)	-
Shares issued under benefit plans		9	5,981				5,990
Dividends declared common shares (1)				(93,833)			(93,833)
Dividends declared preferred shares (2)				(24,639)			(24,639)
Distributions to noncontrolling interests						(9,815)	(9,815)
Contributions from noncontrolling interests						1,336	1,336
Consolidation of joint ventures						(18,573)	(18,573)
Other comprehensive income					1,685		1,685
Other, net			1,181	(1,968)		(423)	(1,210)
Balance, September 30, 2010	$ 8	$ 3,625	$ 1,966,882	$ (117,850)	$ (22,273)	$ 180,238	$ 2,010,630
Balance, January 1, 2011	$ 8	$ 3,630	$ 1,969,905	$ (151,780)	$ (21,774)	$ 180,268	$ 1,980,257
Net loss				(15,421)		(410)	(15,831)
Shares issued under benefit plans		11	8,736				8,747
Dividends declared common shares (1)				(99,638)			(99,638)
Dividends declared preferred shares (2)				(24,639)			(24,639)
Distributions to noncontrolling interests						(9,562)	(9,562)
Contributions from noncontrolling interests						3,717	3,717
Other comprehensive income					1,060		1,060
Other, net			3,477	(1,968)		(2,898)	(1,389)
Balance, September 30, 2011	$ 8	$ 3,641	$ 1,982,118	$ (293,446)	$ (20,714)	$ 171,115	$ 1,842,722

(1) Common dividends per share were $.780 and $.825 for the nine months ended September 30, 2010 and 2011, respectively.

(2) Series D, E and F preferred dividend per share was $37.97, $130.31 and $121.88, respectively, for both the nine months ended September 30, 2010 and 2011.

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Interim Financial Statements

Business

Weingarten Realty Investors is a real estate investment trust (REIT) organized under the Texas Business Organizations Code. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that include neighborhood and community shopping centers and industrial properties of approximately 74.7 million square feet. We have a diversified tenant base with our largest tenant comprising only 3.2% of total rental revenues during the first nine months of 2011.

We currently operate, and intend to operate in the future, as a REIT.

Basis of Presentation

Our condensed consolidated financial statements include the accounts of our subsidiaries, certain partially owned real estate joint ventures or partnerships and variable interest entities which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated. We have evaluated subsequent events for recognition or disclosure in our condensed consolidated financial statements.

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2010 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes has been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Such statements require management to make estimates and assumptions that affect the reported amounts on our consolidated financial statements. Actual results could differ from these estimates.

Impairment

Our property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any capitalized costs and any identifiable intangible assets, may not be recoverable.

If such an event occurs, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future, with consideration of applicable holding periods, on an undiscounted basis to the carrying amount of such property. If we determine the carrying amount is not recoverable, our basis in the property is reduced to its estimated fair value to reflect impairment in the value of the asset. Fair values are determined by management utilizing cash flow models, market capitalization rates and market discount rates, or by obtaining third-party broker or appraisal estimates in accordance with our fair value measurements accounting policy.

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We continuously review economic considerations at each reporting period, including the effects of tenant bankruptcies, the suspension of tenant expansion plans for new development projects, declines in real estate values, and any changes to plans related to our new development properties including land held for development, to identify properties where we believe market values may be deteriorating. Determining whether a property is impaired and, if impaired, the amount of write-down to fair value requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. If market conditions deteriorate or management s plans for certain properties change, additional write-downs could be required in the future.

Our investment in partially owned real estate joint ventures and partnerships is reviewed for impairment each reporting period. The ultimate realization is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the estimated fair value of an investment below its carrying amount is other than temporary. There is no certainty that impairments will not occur in the future if market conditions worsen or if management s plans for these investments change.

Our investments in tax increment revenue bonds are reviewed for impairment, if events or circumstances change indicating that the carrying amount of the investment may not be recoverable. Realization is dependent on a number of factors, including investment performance, market conditions and payment structure. We will record an impairment charge if we determine that a decline in the value of the investment below its carrying amount is other than temporary, recovery of its cost basis is uncertain, and/or it is uncertain if the investment will be held to maturity. As of September 30, 2011, the reissued tax increment revenue bonds have been classified as held to maturity.

Restricted Deposits and Mortgage Escrows

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held for a specific use or in a qualified escrow account for the purposes of completing like-kind exchange transactions. At September 30, 2011, we had $1.7 million of restricted cash and $9.3 million held in escrow related to our mortgages. At December 31, 2010, we had $1.8 million of restricted cash and $8.4 million held in escrow related to our mortgages.

Per Share Data

Earnings per common share basic is computed using net (loss) income attributable to common shareholders and the weighted average shares outstanding. Earnings per common share diluted include the effect of potentially dilutive securities. (Loss) income from continuing operations attributable to common shareholders includes gain on sale of property in accordance with SEC guidelines. Earnings per common share basic and diluted components for the periods indicated are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Continuing Operations:				
(Loss) income from continuing operations	$ (23,493)	$ 17,328	$ (8,925)	$ 36,661
Gain on sale of property	6	126	239	689
Net loss (income) attributable to noncontrolling interests	2,738	(1,712)	410	(3,093)
Preferred share dividends	(8,869)	(8,869)	(26,607)	(26,607)
(Loss) income from continuing operations attributable to common shareholders basic and diluted	$ (29,618)	$ 6,873	$ (34,883)	$ 7,650
Discontinued Operations:				
(Loss) income from discontinued operations attributable to common shareholders basic and diluted	$ (12,471)	$ 1,787	$ (7,145)	$ 5,683
Denominator:				

Weighted average shares outstanding	basic	120,413	119,978	120,301	119,899
Effect of dilutive securities:					
Share options and awards		-	839	-	811
Weighted average shares outstanding	diluted	120,413	120,817	120,301	120,710

Anti-dilutive securities of our common shares of beneficial interest (common shares), which are excluded from the calculation of net (loss) income per common share diluted are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Share options (1)	3,163	3,553	2,846	3,553
Operating partnership units	1,607	1,649	1,626	1,667
Share options and awards	894	-	940	-
Total anti-dilutive securities	5,664	5,202	5,412	5,220

(1) Exclusion results as exercise prices were greater than the average market price for each respective period.

Cash Flow Information

We issued common shares valued at $.7 million during the nine months ended September 30, 2010, in exchange for interests in real estate joint ventures and partnerships, which had been formed to acquire properties. No such shares were issued during the first nine months of 2011. We also accrued $11.5 million and $6.0 million as of September 30, 2011 and 2010, respectively, associated with the construction of our property. Cash payments for interest on debt, net of amounts capitalized, of $117.4 million and $113.7 million were made during the nine months ended September 30, 2011 and 2010, respectively. Cash payments of $1.6 million and $2.1 million for income taxes were made during the nine months ended September 30, 2011 and 2010, respectively.

We have acquired our partners noncontrolling interests in consolidated real estate joint ventures that increased shareholders equity by $1.7 million during the first nine months of 2011. Also, we acquired an outside partner s equity interest in a consolidated real estate joint venture that decreased shareholders equity by $.9 million during the first nine months of 2010.

Effective April 13, 2011 and April 1, 2010, previously unconsolidated joint ventures were consolidated within our consolidated financial statements (see Note 4 for further information). The non-cash investing and financing activities are as follows (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Increase in other assets	$ -	$ 148,255
Decrease in notes receivable from real estate joint ventures and partnerships	21,872	123,912
Increase in debt, net	-	101,741
Increase in property, net	32,307	32,940
Decrease in other liabilities, net	-	21,858
Decrease in noncontrolling interests	-	18,573
Decrease in investment in real estate joint ventures and partnerships	10,092	-

In association with property acquisitions and investments in unconsolidated real estate joint ventures, the non-cash investing and financing activities are as follows (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Increase in debt	$ 24,383	$ -

Decrease in property	3,812	1,666
Decrease in real estate joint ventures and partnerships investments	153	-
Increase in other, net	22	130

During the first nine months of 2011, debt was reduced by $22.9 million associated with our guaranty of debt service on tax increment revenue bonds.

In connection with the sale of an 80% interest in two properties during the first quarter of 2010, we retained a 20% unconsolidated investment of $9.8 million. In addition, this transaction resulted in the unconsolidated joint venture assuming debt totaling $28.1 million.

Accumulated Other Comprehensive Loss

As of September 30, 2011, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $10.6 million and $10.1 million, respectively. As of December 31, 2010, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $11.7 million and $10.1 million, respectively.

Reclassifications

The reclassification of prior years operating results for the three and nine months ended September 30, 2010 for certain properties to discontinued operations was made to conform to the current year presentation. This reclassification had no impact on previously reported net income, earnings per share, the consolidated balance sheet or cash flows.

Note 2. Newly Issued Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which provides for additional disclosures about the credit quality of an entity s financing receivables, including loans and trade accounts receivable with contractual maturities exceeding one year and any related allowance for losses. The provisions of this update were effective for us at December 31, 2010, with the exception of disclosures related to activity occurring during a reporting period, which was effective for us in the first quarter of 2011. The adoption did not materially impact our consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends previous guidance resulting in common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. The amendments both clarify the application of existing fair value measurement requirements and changes certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The provisions of this update are effective for us at January 1, 2012. We do not anticipate the adoption of this update to materially impact our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income, which amends previous guidance by requiring all nonowner changes in shareholders equity to be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, an entity will be required to present on the face of the financial statements reclassification adjustments for items reclassified from other comprehensive income to net income. The provisions of this update are effective for us at January 1, 2012. We do not anticipate the adoption of this update to materially impact our consolidated financial statements.

Note 3. Variable Interest Entities

Management determines whether an entity is a variable interest entity (VIE) and, if so, determines which party is the primary beneficiary by analyzing if we have both the power to direct the entity s significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. Significant judgments and assumptions inherent in this analysis include the design of the entity structure, the nature of the entity s operations, future cash flow projections, the entity s financing and capital structure, and contractual relationships and terms. We consolidate a VIE when we have determined that we are the primary beneficiary.

Risks associated with our involvement with our VIEs include primarily the potential of funding the VIE s debt obligations or making additional contributions to fund the VIE s operations.

Consolidated VIEs:

Two of our real estate joint ventures whose activities principally consist of owning and operating 30 neighborhood/community shopping centers, of which 22 are located in Texas, three in Georgia, two each in Tennessee and Florida and one in North Carolina, were determined to be VIEs. These VIEs have financing agreements that are guaranteed solely by us for tax planning purposes. We have determined that we are the primary

beneficiary and have consolidated these joint ventures. Our maximum exposure to loss associated with these joint ventures is primarily limited to our guaranties of the debt, which were approximately $156.8 million in the aggregate at September 30, 2011.

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Assets held by our consolidated VIEs approximate $271.1 million and $280.3 million at September 30, 2011 and December 31, 2010, respectively. Of these assets, $249.2 million and $253.6 million at September 30, 2011 and December 31, 2010, respectively, are collateral for debt.

Restrictions on the use of these assets are significant because they are collateral for the VIEs debt, and we would generally be required to obtain our partners approval in accordance with the joint venture agreements for any major transactions. Transactions with these joint ventures on our consolidated financial statements have been limited to changes in noncontrolling interests and reductions in debt from our partners contributions. We and our partners are subject to the provisions of the joint venture agreements which include provisions for when additional contributions may be required including operating cash shortfalls and unplanned capital expenditures. We have not provided any additional support to the VIEs as of September 30, 2011.

Unconsolidated VIEs:

At September 30, 2011, two unconsolidated real estate joint ventures were determined to be VIEs through the issuance of secured loans, of which $21.5 million of debt associated with a tenancy-in-common arrangement is recorded in our Condensed Consolidated Balance Sheet, since the lenders have the ability to make decisions that could have a significant impact on the success of the entities. In addition, we have another unconsolidated real estate joint venture with an interest in an entity which is deemed to be a VIE. This unconsolidated joint venture provided a guaranty on debt resulting from its investment in a joint venture. A summary of our unconsolidated VIEs is as follows (in thousands):

Period	Investment in Real Estate Joint Ventures and Partnerships, net (1)	Maximum Risk of Loss (2)
September 30, 2011	$ 30,355	$ 75,737
December 31, 2010	$ 11,581	$ 56,448

(1) The carrying amount of the investments represents our contributions to the real estate joint ventures net of any distributions made and our portion of the equity in earnings of the joint ventures.
(2) The maximum risk of loss has been determined to be limited to our debt exposure for each real estate joint venture.

We and our partners are subject to the provisions of the joint venture agreements that specify conditions, including operating shortfalls and unplanned capital expenditures, under which additional contributions may be required.

Note 4. Business Combinations

Effective April 13, 2011, we acquired our partner s 50% interest in an unconsolidated joint venture (Palm Coast) related to a development property in Palm Coast, Florida, which resulted in the consolidation of this property within our shopping center segment. Management has determined that this transaction qualified as a business combination to be accounted for under the acquisition method.

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated joint ventures (Sheridan) related to a development project in Sheridan, Colorado, which resulted in the consolidation of these joint ventures within our shopping center segment that had previously been accounted for under the equity method. Control was assumed through a modification of the joint venture agreements in which we assumed all management, voting and approval rights without transferring consideration to our joint venture partner. Each partner s percentage interest in the joint ventures remained unchanged. Management has determined that these transactions qualified as business combinations to be accounted for under the acquisition method.

Accordingly, the assets and liabilities of these transactions were recorded in our consolidated balance sheet at their estimated fair values as of their respective effective date, with any applicable partner s share of the resulting net change included in noncontrolling interests. Fair value of assets acquired, liabilities assumed and equity interests was estimated using market-based measurements, including cash flow and other valuation techniques. The fair value measurement is based on both significant inputs for similar assets and liabilities in comparable markets and significant inputs that are not observable in the markets in accordance with our fair value measurements accounting policy. Key assumptions include third-party broker valuation estimates, discount rate of 8% as of April 13, 2011, and discount rates ranging from 8% to 17% as of April 1, 2010, a terminal capitalization rate for similar properties, and factors that we believe market participants would consider in estimating fair value. The results of these transactions are included in our Condensed Consolidated Statements of Operations and Comprehensive (Loss)

Income beginning April 13, 2011 and April 1, 2010, respectively.

The following table summarizes the transactions related to the business combinations, including the assets acquired and liabilities assumed as indicated (in thousands):

	Palm Coast April 13, 2011	Sheridan April 1, 2010
Fair value of our equity interests before business combinations	$ 7,578	$ (21,858)
Fair value of consideration transferred	$ 11,462 (1)	$ -
Amounts recognized for assets and liabilities assumed:		
Assets:		
Property	$ 32,807	$ 32,940
Unamortized debt and lease costs	2,421	5,182
Accrued rent and accounts receivable	211	213
Cash and cash equivalents	1,402	1,522
Other, net	694	151,464 (2)
Liabilities:		
Debt, net	-	(101,741) (3)
Accounts payable and accrued expenses	(137)	(647)
Other, net	(318)	(1,334)
Total net assets	$ 37,080	$ 87,599
Noncontrolling interests of the real estate joint ventures	$ -	$ (18,573)

(1) Consideration included $.5 million of cash and $11.0 million in debt extinguished.
(2) Included primarily a $97.0 million debt service guaranty asset, tax increment revenue bonds of $51.3 million and intangible and other assets.
(3) Excluded the effect of $123.9 million in intercompany debt that is eliminated upon consolidation.

Although we do not anticipate any changes in the Palm Coast fair value measurements, the measurements may be subject to change within 12 months of the business combination date if new facts or circumstances are brought to our attention that were previously unknown but existed as of the business combination date.

As a result of the Palm Coast acquisition, we recognized a gain of $4.6 million which is attributable to the realization upon consolidation of our preferred return on equity. For the nine months ended September 30, 2011, this gain is included in discontinued operations in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income as the property had been classified as held for sale as of September 30, 2011. Additionally, as a result of our Sheridan business combination, we recognized an impairment loss of $15.8 million as a result of revaluing our 50% equity interest held in the real estate joint ventures before the business combinations, which is reported as an impairment loss in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the nine months ended September 30, 2010. For the three months ended September 30, 2011, Palm Coast s impact increased revenues and the net loss attributable to common shareholders by $.9 million and $1.1 million, respectively. For the nine months ended September 30, 2011, Palm Coast s impact increased revenues and the net loss attributable to common shareholders by $1.7 million and $.8 million, respectively. For the three and nine months ended September 30, 2010, Sheridan s impact increased revenues by $.7 million and $1.2 million, respectively. For the three months ended September 30, 2010, Sheridan s impact increased net income attributable to common shareholders by $.1 million, and decreased net income attributable to common shareholders by $.8 million for the nine months ended September 30, 2010.

The following table summarizes the pro forma impact of the real estate joint ventures as if Palm Coast and Sheridan had been consolidated on January 1, 2010, the earliest year presented, as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Pro Forma 2011[(1)]	Pro Forma 2010 [(1)]	Pro Forma 2011[(1)]	Pro Forma 2010 [(1)]
Revenues	$ 138,565	$ 134,957	$ 406,531	$ 403,259
Net (loss) income	$ (35,958)	$ 19,299	$ (15,888)	$ 42,486
Net (loss) income attributable to common shareholders	$ (42,089)	$ 8,718	$ (42,085)	$ 13,101
Earnings per share basic	$ (.35)	$ .07	$ (.35)	$ .11
Earnings per share diluted	$ (.35)	$ .07	$ (.35)	$ .11

(1) There are no non-recurring pro forma adjustments included within or excluded from the amounts in the preceding table.

Note 5. Derivatives and Hedging

Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage our interest rate risk, we occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate contracts with major financial institutions. Interest rate contracts that meet specific criteria are accounted for as either assets or liabilities as a fair value or cash flow hedge.

Cash Flow Hedges of Interest Rate Risk:

Our objective in using interest rate contracts is to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate contracts as part of our interest rate risk management strategy. Interest rate contracts designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount or capping floating rate interest payments.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of September 30, 2011 and December 31, 2010, respectively, we had three and two active interest rate contracts designated as cash flow hedges with an aggregate notional amount of $27.3 million and $11.8 million, respectively. These contracts have maturities through September 2017 and either fix or cap interest rates ranging from 2.3% to 5.0%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows. As of September 30, 2011 and December 31, 2010, the fair value of these derivatives included in net other assets was $.04 million and $.09 million, respectively, and included in net other liabilities was $.7 million and $.1 million, respectively.

As of September 30, 2011 and December 31, 2010, the balance in accumulated other comprehensive loss relating to cash flow interest rate contracts was $10.6 million and $11.7 million, respectively, and will be reclassified to net interest expense as interest payments are made on our fixed-rate debt. Amounts reclassified from accumulated other comprehensive loss to net interest expense were $.7 million and $.6 million for the three months ended September 30, 2011 and 2010, respectively, and $1.9 million during both the nine months ended September 30, 2011 and 2010. Within the next 12 months, approximately $2.6 million of the balance in accumulated other comprehensive loss is expected to be amortized to net interest expense related to settled interest rate contracts.

Fair Value Hedges of Interest Rate Risk:

We are exposed to changes in the fair value of certain of our fixed-rate obligations due to changes in benchmark interest rates, such as LIBOR. We use interest rate contracts to manage our exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate contracts designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for us making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Changes in the fair

value of interest rate contracts designated as fair value hedges, as well as changes in the fair value of the related debt being hedged, are recorded in earnings each reporting period.

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As of September 30, 2011 and December 31, 2010, we had four interest rate contracts, maturing through October 2017, with an aggregate notional amount of $119.6 million and $120.4 million, respectively, that were designated as fair value hedges and convert fixed interest payments at rates from 4.2% to 7.5% to variable interest payments ranging from .3% to 4.3% and .3% to 4.4%, respectively. We have determined that our fair value hedges are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in interest rates.

For the three and nine months ended September 30, 2011, we recognized a net reduction in interest expense of $1.8 million and $5.3 million, respectively, related to our fair value hedges, which includes net settlements and any amortization adjustment of the basis in the hedged item. For the three and nine months ended September 30, 2010, we recognized a net reduction in interest expense of $1.5 million and $4.7 million, respectively, related to our fair value hedges, which includes net settlements and any amortization adjustment of the basis in the hedged item. Also, for the three and nine months ended September 30, 2010, we recognized a gain of $.3 million and $.9 million, respectively, associated with hedge ineffectiveness with no such activity in the related periods of 2011.

A summary of the changes in fair value of our interest rate contracts is as follows (in thousands):

	Gain (Loss) on Contracts	Gain (Loss) on Borrowings	Gain (Loss) Recognized in Income
Three Months Ended September 30, 2011:			
Interest expense, net	$ 3,562	$ (3,562)	$ -
Nine Months Ended September 30, 2011:			
Interest expense, net	$ 4,056		