WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
November 05, 2010

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, 2010

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)	(IRS 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 November 1, 2010, there were 120,415,918 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

TABLE OF CONTENTS

PART I.		Financial Information:	Page Number
	Item 1.	Financial Statements (unaudited):	
		Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2010 and 2009	3
		Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009	4
		Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009	5
		Condensed Consolidated Statements of Equity for the Nine Months Ended September 30, 2010 and 2009	6
		Notes to Condensed Consolidated Financial Statements	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
	Item 4.	Controls and Procedures	43
PART II.		Other Information:	
	Item 1.	Legal Proceedings	43
	Item 1A.	Risk Factors	43
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	43
	Item 3.	Defaults Upon Senior Securities	43
	Item 4.	Removed and Reserved	43
	Item 5.	Other Information	43

Item 6.	Exhibits	43
Signatures		44
Exhibit Index		45

Table of Contents

PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Rentals, net	$134,643	$138,175	$404,043	$417,560
Other	4,396	4,898	10,893	12,262
Total	139,039	143,073	414,936	429,822
Expenses:				
Depreciation and amortization	37,297	36,694	111,440	111,485
Operating	25,456	25,506	77,154	75,310
Real estate taxes, net	15,653	18,100	48,976	54,472
Impairment loss	4,941	32,774	21,002	32,774
General and administrative	6,443	6,178	19,103	19,198
Total	89,790	119,252	277,675	293,239
Operating Income	49,249	23,821	137,261	136,583
Interest Expense, net	(36,679)	(36,431)	(111,762)	(115,247)
Interest and Other Income, net	3,070	3,596	6,905	8,504
Equity in Earnings (Loss) of Real Estate Joint Ventures and Partnerships, net	3,455	(4,763)	9,321	2,783
Gain (Loss) on Redemption of Convertible Senior Unsecured Notes		16,453	(135)	25,311
Gain on Land and Merchant Development Sales		491		18,619
Benefit (Provision) for Income Taxes	20	(4,332)	(155)	(7,039)
Income (Loss) from Continuing Operations	19,115	(1,165)	41,435	69,514
Operating (Loss) Income from Discontinued Operations		(722)	12	3,228
Gain on Sale of Property from Discontinued Operations		398	618	7,385
(Loss) Income from Discontinued Operations		(324)	630	10,613
Gain on Sale of Property	126	994	968	12,374
Net Income (Loss)	19,241	(495)	43,033	92,501
Less: Net Income Attributable to Noncontrolling Interests	(1,712)	(20)	(3,093)	(2,894)
Net Income (Loss) Adjusted for Noncontrolling Interests	17,529	(515)	39,940	89,607
Dividends on Preferred Shares	(8,869)	(8,869)	(26,607)	(26,607)
Net Income (Loss) Attributable to Common Shareholders	$8,660	$(9,384)	$13,333	$63,000
Earnings Per Common Share - Basic:				
	$0.07	$(0.08)	$0.10	$0.49

Income (loss) from continuing operations attributable to common shareholders				
Income from discontinued operations			0.01	0.10
Net income (loss) attributable to common shareholders	$0.07	$(0.08)	$0.11	$0.59
Earnings Per Common Share - Diluted:				
Income (loss) from continuing operations attributable to common shareholders	$0.07	$(0.08)	$0.10	$0.49
Income from discontinued operations			0.01	0.10
Net income (loss) attributable to common shareholders	$0.07	$(0.08)	$0.11	$0.59
Comprehensive Income:				
Net Income (Loss)	$19,241	$(495)	$43,033	$92,501
Net unrealized loss on derivatives	(262)		(262)	
Amortization of loss on derivatives	619	620	1,947	1,862
Comprehensive Income	19,598	125	44,718	94,363
Comprehensive Income Attributable to Noncontrolling Interests	(1,712)	(20)	(3,093)	(2,894)
Comprehensive Income Adjusted for Noncontrolling Interests	$17,886	$105	$41,625	$91,469

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
Property	$4,709,820	$4,658,396
Accumulated Depreciation	(939,209)	(856,281)
Property, net *	3,770,611	3,802,115
Investment in Real Estate Joint Ventures and Partnerships, net	312,302	315,248
Total	4,082,913	4,117,363
Notes Receivable from Real Estate Joint Ventures and Partnerships	187,594	317,838
Unamortized Debt and Lease Costs, net	109,498	103,396
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $9,402 in 2010 and $10,380 in 2009) *	88,755	96,372
Cash and Cash Equivalents *	31,814	153,584
Restricted Deposits and Mortgage Escrows	61,767	12,778
Other, net	247,740	89,054
Total	$4,810,081	$4,890,385
LIABILITIES AND EQUITY		
Debt, net *	$2,574,845	$2,531,847
Accounts Payable and Accrued Expenses	121,375	137,727
Other, net	103,231	114,155
Total	2,799,451	2,783,729
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 2010 and 2009; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2010 and 2009; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 140 shares issued and outstanding in 2010 and 2009; liquidation preference $350,000	4	4
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 275,000; shares issued and outstanding: 120,411 in 2010 and 120,098 in 2009	3,625	3,615
Accumulated Additional Paid-In Capital	1,966,882	1,958,975
Net Income Less Than Accumulated Dividends	(117,850)	(37,350)
Accumulated Other Comprehensive Loss	(22,273)	(23,958)
Shareholders' Equity	1,830,392	1,901,290
Noncontrolling Interests	180,238	205,366

Total Equity	2,010,630	2,106,656
Total	$4,810,081	$4,890,385

* Consolidated Variable Interest Entities' Assets and Liabilities included in the above balances (See Notes 2 and 3):

Property, net	$234,268	$237,710
Accrued Rent and Accounts Receivable, net	7,716	9,515
Cash and Cash Equivalents	11,829	13,085
Debt, net	281,673	282,096

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2010	2009
Cash Flows from Operating Activities:		
Net Income	$43,033	$92,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	111,446	115,291
Amortization of deferred financing costs and debt discount	3,861	8,741
Impairment loss	21,002	35,889
Equity in earnings (loss) of real estate joint ventures and partnerships, net	(9,321)	(2,783)
Gain on land and merchant development sales		(18,619)
Gain on sale of property	(1,586)	(19,759)
Loss (gain) on redemption of convertible senior unsecured notes	135	(25,311)
Distributions of income from unconsolidated real estate joint ventures and partnerships	1,289	1,954
Changes in accrued rent and accounts receivable, net	5,821	11,200
Changes in other assets, net	(14,122)	(3,620)
Changes in accounts payable and accrued expenses	(11,969)	(14,403)
Other, net	8,462	8,156
Net cash provided by operating activities	158,051	189,237
Cash Flows from Investing Activities:		
Investment in property	(85,338)	(85,693)
Proceeds from sale and disposition of property, net	17,302	121,407
Change in restricted deposits and mortgage escrows	(49,882)	18,726
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	(7,602)	(92,293)
Collections	15,127	5,555
Real estate joint ventures and partnerships:		
Investments	(1,213)	(3,594)
Distributions of capital	12,296	12,701
Other, net	1,522	
Net cash used in investing activities	(97,788)	(23,191)
Cash Flows from Financing Activities:		
Proceeds from issuance of:		
Debt	336	341,040
Common shares of beneficial interest, net	2,030	439,097
Principal payments of debt	(100,860)	(563,700)
Changes in unsecured revolving credit facilities	50,000	(193,000)
Common and preferred dividends paid	(118,472)	(130,409)
Debt issuance costs paid	(6,367)	(5,633)
Other, net	(8,700)	(7,693)
Net cash used in financing activities	(182,033)	(120,298)

Net (decrease) increase in cash and cash equivalents	(121,770)	45,748
Cash and cash equivalents at January 1	153,584	58,946
Cash and cash equivalents at September 30	$31,814	$104,694

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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, 2009	$8	$2,625	$ 1,514,940	$ (37,245)	$ (29,676)	$ 204,031	$1,654,683
Net income				89,607		2,894	92,501
Shares issued in exchange for noncontrolling interests		6	6,394			(6,400)	
Issuance of common shares		966	438,089				439,055
Shares issued under benefit plans		8	4,043				4,051
Dividends declared – common shares (1)				(105,770)			(105,770)
Dividends declared – preferred shares (2)				(24,639)			(24,639)
Sale of properties with noncontrolling interests						23,521	23,521
Distributions to noncontrolling interests						(12,070)	(12,070)
Contributions from noncontrolling interests						4,518	4,518
Purchase and cancellation of convertible senior unsecured notes			(16,110)				(16,110)
Other comprehensive income					1,862		1,862

Other, net			1,952	(1,968)		11	(5)
Balance, September 30, 2009	$8	$3,605	$ 1,949,308	$ (80,015)	$ (27,814)	$ 216,505	$2,061,597
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

(1) Common dividends per share were $1.025 and $.78 for the nine months ended September 30, 2009 and 2010, respectively.

(2) Series D, E and F preferred dividends per share were $37.97, $130.31 and $121.88, respectively, for both the nine months ended September 30, 2009 and 2010.

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 Real Estate Investment Trust Act. Effective January 1, 2010, the Texas Real Estate Investment Trust Act was replaced by 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 70.6 million square feet. We have a diversified tenant base with our largest tenant comprising only 2.9% of total rental revenues during 2010.

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 and certain partially owned real estate joint ventures or partnerships which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2009 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, 2009.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Such statements require management to make estimates and assumptions that affect the reported amounts on our condensed 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 site costs, capitalized interest 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 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 and appraisal estimates in accordance with our fair value measurements policy.

Table of Contents

We continuously review current 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. Impairments, primarily related to undeveloped land at our new development properties, of $4.9 million and $5.2 million were recognized for the three and nine months ended September 30, 2010, respectively, and $35.2 million and $35.9 million were recognized for the three and nine months ended September 30, 2009, respectively. 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 continue to deteriorate or management's plans for certain properties change, additional write-downs could be required in the future.

Our investment in real estate joint ventures and partnerships is reviewed for impairment, if events or circumstances change indicating that the carrying amount of an investment may not be recoverable. 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 value of an investment below its carrying amount is other than temporary. During the nine months ended September 30, 2010, an impairment loss of $15.8 million was recognized in connection with the revaluation of our 50% equity interest in a development project in Sheridan, Colorado, as a result of our assumption of control of the project as of April 1, 2010. See Note 4 for additional information. No impairment on these investments was recorded for the three months ended September 30, 2010 or for the three or nine months ended September 30, 2009, respectively. However, due to the current credit and real estate market conditions, there is no certainty that impairments will not occur in the future.

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, 2010 and December 31, 2009, we had $50.8 million and $1.6 million of restricted cash, respectively, and $11.0 million and $11.1 million held in escrow related to our mortgages, respectively. At September 30, 2010, restricted cash includes a $47.6 million collateral account associated with a settlement agreement in connection with a development project in Sheridan, Colorado. See Note 15 for additional information.

Per Share Data

Earnings per common share – basic is computed using net income attributable to common shareholders and the weighted average shares outstanding. Earnings per common share – diluted include the effect of potentially dilutive securities. 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,	
	2010	2009	2010	2009
Numerator:				
Net income (loss) attributable to common shareholders – basic and diluted	$8,660	$(9,384)	$13,333	$63,000
Denominator:				
Weighted average shares outstanding – basic	119,978	119,834	119,899	106,186
Effect of dilutive securities:				

Share options and awards	839		811	559
Weighted average shares outstanding – diluted	120,817	119,384	120,710	106,745

Options to purchase common shares of beneficial interest ("common shares") of 3.6 million and 3.1 million for both the three and nine months ended September 30, 2010 and 2009, respectively, were not included in the calculation of net income per common share - diluted as the exercise prices were greater than the average market price for the period. For the three and nine months ended September 30, 2010, 1.6 million and 1.7 million, respectively, operating partnership units were not included in the calculation of net income per common share-diluted because these units had an anti-dilutive effect. For the three months ended September 30, 2009, .7 million share options and 2.1 million operating partnership units were not included in the calculation of net income per common share-diluted because these units had an anti-dilutive effect. For the nine months ended September 30, 2009, 2.0 million operating partnership units were not included in the calculation of net income per common share – diluted because these units had an anti-dilutive effect.

Cash Flow Information

We issued common shares valued at $.7 million and $6.4 million for the nine months ended September 30, 2010 and 2009, respectively, in exchange for interests in real estate joint ventures and partnerships, which had been formed to acquire properties. We also accrued $6.0 million and $21.8 million as of September 30, 2010 and 2009, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of $113.7 million and $133.8 million were made during the nine months ended September 30, 2010 and 2009, respectively. A cash payment of $2.1 million and $3.1 million for income taxes was made during the nine months ended September 30, 2010 and 2009, respectively.

In connection with the sale of an 80% interest in two properties during 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.

Effective April 1, 2010, two previously unconsolidated joint ventures were consolidated within our consolidated financial statements. The non-cash investing and financing activities are as follows (in thousands):

Increase in other assets	$148,255
Decrease in notes receivable from real estate joint ventures and partnerships	123,912
Increase in debt, net	101,741
Increase in property, net	32,940
Decrease in other liabilities, net	21,858
Decrease in noncontrolling interests	18,573

Also, in April 2010, we acquired an outside partner's equity interest in a consolidated real estate joint venture that reduced equity by $.9 million.

During the nine months ended September 30, 2009, we received notes receivable totaling $.2 million in connection with the sale of improved properties, and our investment in real estate joint ventures and partnerships and a non-cash contingent liability was reduced by $41 million as result of the cash settlement associated with a lawsuit in 2009.

Accumulated Other Comprehensive Loss

As of September 30, 2010, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $12.7 million and $9.6 million, respectively. As of December 31, 2009, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $14.4 million and $9.6 million, respectively.

Reclassifications

The reclassification of prior years' operating results for the three and nine months ending September 30, 2009 for certain properties to discontinued operations was made to conform to the current year presentation. The reclassification of prior years' activity of the unsecured revolving credit facility was reclassified from debt proceeds and principal payments of debt to changes in unsecured revolving credit facilities in our Condensed Consolidated Statement of Cash Flows to conform to the current year presentation. These reclassifications had no impact on previously reported cash flows from financing activities.

Table of Contents

Note 2. Newly Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-17 ("ASU 2009-17"), "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 updated Accounting Standards Codification ("ASC") 810, "Consolidations" and was intended to improve an organization's variable interest entity reporting. It required a change in the analysis used to determine whether an entity has a controlling financial interest in a variable interest entity, including the identification of the primary beneficiary of a variable interest entity. The holder of the variable interest is defined as the primary beneficiary if it has both the power to influence the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. ASU 2009-17 also requires additional disclosures about an entity's variable interest entities. The update was effective for us on January 1, 2010. Implementation of ASU 2009-17 has resulted in additional disclosures included on the face of the Consolidated Balance Sheets and in Note 3.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements," which provides for new disclosures as well as, clarification of existing disclosures on fair value measurements including employers' disclosures about postretirement benefit plan assets. The update was effective for us beginning January 1, 2010, and its adoption did not 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 it has both the power to influence 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 was approximately $208.8 million at September 30, 2010.

Assets held by our consolidated VIEs approximate $329.0 million and $291.6 million at September 30, 2010 and December 31, 2009, respectively. Of these assets, $253.8 million and $260.3 million at September 30, 2010 and December 31, 2009, respectively, are collateral for debt.

Restrictions on the use of these assets are significant because they are collateral for the VIE's debt, and we would be required to obtain our partners' approval in accordance with the joint venture agreements on any major transactions. The impact of these transactions on our consolidated financial statements has 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

as of September 30, 2010 and December 31, 2009.

Unconsolidated VIEs:

We also have unconsolidated real estate joint ventures which engage in operating or developing real estate that have been determined to be VIEs due to agreements entered into by the joint ventures of which we were not determined to be the primary beneficiary.

Table of Contents

An unconsolidated real estate joint venture was determined to be a VIE through the issuance of a secured loan since the lender has the ability to make decisions that could have a significant impact on the success of the entity. In addition, we have another unconsolidated real estate joint venture with an interest in an entity which is deemed to be a VIE since the unconsolidated joint venture provided a guaranty on debt obtained 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, 2010	$ 11,345	$ 111,008
December 31, 2009	$ 7,088	$ 113,021

____

(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 exposure to loss has been determined to be limited to the guaranty of the debt for each respective 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 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 of accounting. 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 the joint ventures were recorded on our consolidated balance sheet at their estimated fair values as of April 1, 2010, with our partner's share of the resulting net deficit included in noncontrolling interests. Fair value of assets acquired, liabilities assumed and equity interests was determined 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 active markets and significant inputs that are not observable in the markets in accordance with our fair value measurements policy. Key assumptions include third-party broker valuation estimates, discount rates ranging from 8% to 17%, a terminal cap rate for similar properties, and factors that market participants would consider in estimating fair value. The results of the joint ventures are included in our Condensed Consolidated Statements of Income and Comprehensive Income beginning April 1, 2010.

The following table summarizes the transactions related to the business combinations; including the assets acquired and liabilities assumed as of April 1, 2010, upon which fair value measurements are subject to change until our information is finalized, which will be no later than twelve months from the business combination date (in thousands):

Fair value of our equity interests before business combinations	$(21,858)
Amounts recognized for assets and liabilities assumed:	
Assets:	
Property	$32,940
Unamortized Debt and Lease Costs	5,182

Accrued Rent and Accounts Receivable	213
Cash and Cash Equivalents	1,522
Other, net (1)	151,464
Liabilities:	
Debt, net (2)	(101,741)
Accounts payable and accrued expenses	(647)
Other, net	(1,334)
Total Net Assets	$87,599
Noncontrolling interests of the real estate joint ventures	$(18,573)

(1) Includes primarily a $97.0 million debt service guaranty asset, mortgage bonds of $51.3 million and intangible and other assets.

(2) Excludes the effect of $123.9 million in intercompany debt that is eliminated upon consolidation.

Table of Contents

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 Income and Comprehensive Income. For the three months ended September 30, 2010, Sheridan's impact increased revenues and net income attributable to common shareholders by $.7 million and $.1 million, respectively. For the nine months ended September 30, 2010, Sheridan's impact increased revenues by $1.2 million and decreased net income attributable to common shareholders by $.8 million.

The following table summarizes the pro forma impact of the real estate joint ventures as if Sheridan had been consolidated at January 1, 2009 as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Pro Forma 2010 (1)	Pro Forma 2009	Pro Forma 2010	Pro Forma 2009
Revenues	$139,039	$143,358	$415,358	$430,743
Net income (loss)	$19,241	$(5,226)	$42,510	$87,570
Net income (loss) attributable to common shareholders	$8,660	$(9,549)	$13,125	$62,836
Earnings per share - basic	$.07	$(.08)	$.11	$.59
Earnings per share - diluted	$.07	$(.08)	$.11	$.59

(1) Because the business combinations' effective date was April 1, 2010 there is no difference between pro forma and actual.

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.

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. At September 30, 2010, we had two active cash flow hedges as described below.

During the third quarter 2010, two interest rate contracts were designated as cash flow hedges with an aggregate notional amount of $11.9 million, which have various maturities through December 2015, and fix interest rates at 2.3% and 2.45%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows. The fair value of these derivatives was $.4 million and is included in net other liabilities as of September 30, 2010.

As of September 30, 2010 and December 31, 2009, the balance in accumulated other comprehensive loss relating to cash flow interest rate contracts was $12.7 million and $14.4 million, respectively, and upon settlement will be reclassified to net interest expense as interest payments are made on our fixed-rate debt. Amounts amortized to net interest expense were $.6 million and $1.9 million for both the three and nine months ended September 30, 2010 and 2009, respectively. Within the next 12 months, approximately $2.5 million of the balance in accumulated other comprehensive loss is expected to be amortized to net interest expense related to settled interest rate contracts.

Table of Contents

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.

In April 2010, we entered into two interest rate contracts with a total notional amount of $71.3 million that mature in October 2017, which convert fixed interest payments at rates of 7.5% to variable interest payments. These contracts were designated as fair value hedges, and we have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates.

In December 2009, we entered into 11 interest rate contracts with a total notional amount of $302.6 million, which have various maturities through February 2014. In February 2010, we settled $7 million of these interest rate contracts in conjunction with the repurchase of the related unsecured fixed-rate medium term notes, and a $.02 million gain was realized.

As of September 30, 2010, we had 15 interest rate contracts with an aggregate notional amount of $416.3 million, of which $414.9 million is designated as fair value hedges that convert fixed interest payments at rates ranging from 4.2% to 7.5% to variable interest payments ranging from .3% to 6.1%. As of December 31, 2009, we had 13 interest rate contracts with an aggregate notional amount of $352.6 million, of which $352.6 million is designated as fair value hedges that convert fixed interest payments at rates ranging from 4.2% to 7.5% to variable interest payments ranging from .3% to 6.1%. 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.

During the first quarter of 2010, the initial hedging relationship was terminated on three of our interest rate contracts with a total notional amount of $97.6 million. We simultaneously re-designated $90.0 million as fair value hedges. The changes in the fair value of the undesignated portion of the interest rate contract will be recorded directly to earnings each period.

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 present in the related periods of 2009. For the three and nine months ended September 30, 2009, we recognized a net reduction in interest expense of $.5 million and $1.3 million, respectively, related to our fair value hedges.

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, 2010:			
Interest expense, net	$ 6,851	$ (6,523)	$ 328