

ENTERTAINMENT PROPERTIES TRUST

Form 10-Q

November 05, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended September 30, 2009

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: 1-13561

ENTERTAINMENT PROPERTIES TRUST

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction
of incorporation or organization)

43-1790877

(I.R.S. Employer Identification No.)

**30 West Pershing Road, Suite 201
Kansas City, Missouri**

(Address of principal executive offices)

64108

(Zip Code)

(816) 472-1700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 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 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer 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

At November 4, 2009, there were 36,515,731 common shares of beneficial interest outstanding.

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CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS

With the exception of historical information, certain statements contained or incorporated by reference herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The forward-looking statements may refer to our financial condition, results of operations, plans, objectives, acquisition or disposition of properties, future expenditures for development projects, capital resources, future financial performance and business. Forward-looking statements are not guarantees of performance. They involve numerous risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as will be, continue, hope, goal, forecast, approximates, believes, expects, anticipate, estimates, intends, plans would, may or other similar expressions in this Quarterly Report on Form 10-Q. In addition, references to our budgeted amounts are forward looking statements. Factors that could materially and adversely affect us include, but are not limited to, the factors listed below:

- General international, national, regional and local business and economic conditions;
- Current levels of market volatility are unprecedented;
- Failure of current governmental efforts to stimulate the economy;
- The downturn in the credit markets;
- The failure of a bank to fund a request by us to borrow money;
- Failure of banks in which we have deposited funds;
- Defaults in the performance of lease terms by our tenants;
- Defaults by our customers and counterparties on their obligations owed to us;
- A mortgagor's bankruptcy or default;
- A significant loan commitment for a development project that may not be completed;
- The obsolescence of older multiplex theaters owned by some of our tenants;
- Risks of operating in the entertainment industry;
- Our ability to compete effectively;
- The majority of our megaplex theater properties are leased by a single tenant;
- A single tenant leases or is the mortgagor of all our ski area investments;
- A single tenant leases all of our charter schools;
- Risks associated with use of leverage to acquire properties;
- Financing arrangements that require lump-sum payments;
- Our ability to sustain the rate of growth we have had in recent years;
- Our ability to raise capital;

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Covenants in our debt instruments that limit our ability to take certain actions;
Risks of acquiring and developing properties and real estate companies;
The lack of diversification of our investment portfolio;
Our continued qualification as a REIT;
The ability of our subsidiaries to satisfy their obligations;
Financing arrangements that expose us to funding or purchase risks;
We have a limited number of employees and the loss of personnel could harm operations;
Fluctuations in the value of real estate income and investments;
Risks relating to real estate ownership, leasing and development, for example local conditions such as an oversupply of space or a reduction in demand for real estate in the area, competition from other available space, whether tenants and users such as customers of our tenants consider a property attractive, changes in real estate taxes and other expenses, changes in market rental rates, the timing and costs associated with property improvements and rentals, changes in taxation or zoning laws or other governmental regulation, whether we are able to pass some or all of any increased operating costs through to tenants, and how well we manage our properties;
Our ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
Risks involved in joint ventures;
Risks in leasing multi-tenant properties;
A failure to comply with the Americans with Disabilities Act or other laws;
Risks of environmental liability;
Our real estate investments are relatively illiquid;
We own assets in foreign countries;
Risks associated with owning or financing properties for which the tenant's or mortgagor's operations may be impacted by weather conditions;
Risks associated with the ownership of vineyards;
Our ability to pay dividends in cash or at current rates;
Fluctuations in interest rates;
Fluctuations in the market prices for our shares;
Certain limits on change in control imposed under law and by our Declaration of Trust and Bylaws;
Policy changes obtained without the approval of our shareholders;
Equity issuances could dilute the value of our shares;

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Risks associated with changes in the Canadian exchange rate; and
Changes in laws and regulations, including tax laws and regulations

These forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A. Risk Factors in the Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 24, 2009 and to the extent applicable, our Quarterly Reports on Form 10-Q.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference herein. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Balance Sheets
(Dollars in thousands except share data)

	September 30, 2009	December 31, 2008
	(Unaudited)	
Assets		
Rental properties, net of accumulated depreciation of \$247,425 and \$214,078 at September 30, 2009 and December 31, 2008, respectively	\$ 1,726,136	\$ 1,735,026
Property under development	20,575	30,835
Mortgage notes and related accrued interest receivable, net	518,069	508,506
Investment in a direct financing lease, net	168,884	166,089
Investment in joint ventures	2,435	2,493
Cash and cash equivalents	11,196	50,082
Restricted cash	15,902	11,004
Intangible assets, net	6,908	12,400
Deferred financing costs, net	13,159	10,741
Accounts receivable, net	31,714	33,405
Notes and related accrued interest receivable, net	12,395	40,338
Other assets	26,164	33,006
Total assets	\$ 2,553,537	\$ 2,633,925
Liabilities and Shareholders Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 28,608	\$ 35,665
Common dividends payable	23,748	27,377
Preferred dividends payable	7,552	7,552
Unearned rents and interest	12,277	8,312
Long-term debt	1,184,139	1,262,368
Total liabilities	1,256,324	1,341,274
Shareholders equity:		
Common Shares, \$.01 par value; 50,000,000 shares authorized; and 37,419,399 and 33,734,181 shares issued at September 30, 2009 and December 31, 2008, respectively	374	337
Preferred Shares, \$.01 par value; 25,000,000 shares authorized; 3,200,000 Series B shares issued at September 30, 2009 and December 31, 2008; liquidation preference of \$80,000,000	32	32
5,400,000 Series C convertible shares issued at September 30, 2009 and December 31, 2008; liquidation preference of \$135,000,000	54	54
4,600,000 Series D shares issued at September 30, 2009 and December 31, 2008; liquidation preference of \$115,000,000	46	46

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3,450,000 Series E convertible shares issued at September 30, 2009 and December 31, 2008; liquidation preference of \$86,250,000	35	35
Additional paid-in-capital	1,440,063	1,339,798
Treasury shares at cost: 904,824 and 860,084 common shares at September 30, 2009 and December 31, 2008, respectively	(27,698)	(26,357)
Loans to shareholders	(1,925)	(1,925)
Accumulated other comprehensive income (loss)	16,985	(6,169)
Distributions in excess of net income	(126,760)	(28,417)
Entertainment Properties Trust shareholders' equity	1,301,206	1,277,434
Noncontrolling interests	(3,993)	15,217
Shareholders' equity	1,297,213	1,292,651
Total liabilities and shareholders' equity	\$ 2,553,537	\$ 2,633,925

See accompanying notes to consolidated financial statements.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Rental revenue	\$ 51,297	\$ 52,139	\$ 152,215	\$ 151,201
Tenant reimbursements	4,734	5,249	13,627	16,114
Other income	441	460	2,310	1,657
Mortgage and other financing income	11,650	17,125	33,392	40,609
Total revenue	68,122	74,973	201,544	209,581
Property operating expense	6,708	6,612	21,108	19,947
Other expense	614	430	2,087	1,982
General and administrative expense	3,557	3,718	11,961	12,070
Costs associated with loan refinancing			117	
Interest expense, net	19,355	17,689	54,274	52,117
Provision for loan losses	65,757		65,757	
Impairment charge	35,801		35,801	
Depreciation and amortization	11,921	11,170	36,383	32,184
Income (loss) before equity in income from joint ventures and discontinued operations	(75,591)	35,354	(25,944)	91,281
Equity in income from joint ventures	229	216	673	1,743
Income (loss) from continuing operations	\$ (75,362)	\$ 35,570	\$ (25,271)	\$ 93,024
Discontinued operations:				
Loss from discontinued operations				(27)
Gain on sale of real estate				119
Net income (loss)	(75,362)	35,570	(25,271)	93,116
Add: Net loss attributable to noncontrolling interests	16,071	488	19,014	1,474
Net income (loss) attributable to Entertainment Properties Trust	(59,291)	36,058	(6,257)	94,590
Preferred dividend requirements	(7,552)	(7,552)	(22,655)	(20,714)
Net income (loss) available to common shareholders of Entertainment Properties Trust	\$ (66,843)	\$ 28,506	\$ (28,912)	\$ 73,876
Per share data attributable to Entertainment Properties Trust common shareholders:				

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Basic earnings per share data:

Income (loss) from continuing operations available to common shareholders	\$ (1.89)	\$ 0.89	\$ (0.83)	2.44
Income from discontinued operations				

Net income (loss) available to common shareholders	\$ (1.89)	\$ 0.89	\$ (0.83)	\$ 2.44
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Diluted earnings per share data:

Income (loss) from continuing operations available to common shareholders	\$ (1.89)	\$ 0.88	\$ (0.83)	\$ 2.41
Income from discontinued operations				0.01

Net income (loss) available to common shareholders	\$ (1.89)	\$ 0.88	\$ (0.83)	\$ 2.42
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Shares used for computation (in thousands):

Basic	35,445	32,033	34,937	30,252
Diluted	35,445	32,365	34,937	30,565

Dividends per common share	\$ 0.65	\$ 0.84	\$ 1.95	\$ 2.52
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See accompanying notes to consolidated financial statements.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statement of Changes in Shareholders' Equity
Nine Months Ended September 30, 2009
(Unaudited)
(Dollars in thousands)

Entertainment Properties Trust Shareholders

	Common Stock		Preferred Stock		Additional paid-in capital	Treasury shares	Loans to shareholders	Accumulated other comprehensive income (loss)	Distributions in excess of net income	Noncontrolling Interests	Total
	Shares	Par	Shares	Par							
Balance at December 31, 2008	33,734,181	\$ 337	16,650,000	\$ 167	\$ 1,339,798	\$ (26,357)	\$ (1,925)	\$ (6,169)	\$ (28,417)	\$ 15,217	\$ 1,292,650
Restricted share units issued to trustees in exchange of invested shares, including invested shares issued at the end of the year					390						390
Issuance of shares	218,797	2			2,413						2,415
Cancellation of shares					139	(139)					
Share option expense					2,459						2,459
Foreign currency translation adjustment					505			30,178			30,178
Change in realized gain/loss on derivatives								(7,024)			(7,024)
Net income (loss)									(6,257)	(19,014)	(25,271)

urchase of 565 mmon ares for asury						(1,202)						(1,202)	
uances of mmon ares, net of sts of \$377	3,466,421	35				94,359						94,359	
ividends to mmon and ferred areholders istributions id to ncontrolling erests												(92,086)	(92,086)
												(196)	(196)
alance at eptember 30, 09	37,419,399	\$ 374	16,650,000	\$ 167	\$ 1,440,063	\$ (27,698)	\$ (1,925)	\$ 16,985	\$ (126,760)	\$ (3,993)	\$ 1,297,210		

See accompanying notes to consolidated financial statements.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ (75,362)	\$ 35,570	\$ (25,271)	\$ 93,116
Other comprehensive income (loss):				
Foreign currency translation adjustment	19,701	(10,640)	30,178	(17,624)
Change in unrealized gain (loss) on derivatives	(12,667)	7,282	(7,024)	9,402
Comprehensive income (loss)	(68,328)	32,212	(2,117)	84,894
Comprehensive loss attributable to the noncontrolling interests	16,071	488	19,014	1,474
Comprehensive income (loss) attributable to Entertainment Properties Trust	\$ (52,257)	\$ 32,700	\$ 16,897	\$ 86,368

See accompanying notes to consolidated financial statements.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September	
	30,	
	2009	2008
Operating activities:		
Net income (loss)	\$ (25,271)	\$ 93,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	65,757	
Non-cash impairment charge	35,801	
Loss from discontinued operations		(92)
Costs associated with loan refinancing	117	
Equity in income from joint ventures	(673)	(1,743)
Distributions from joint ventures	743	2,017
Depreciation and amortization	36,383	32,184
Amortization of deferred financing costs	2,552	2,402
Share-based compensation expense to management and trustees	3,238	2,975
Decrease in restricted cash	1,315	2,304
Increase in mortgage notes accrued interest receivable	(516)	(15,570)
Decrease (increase) in accounts receivable, net	2,977	(2,477)
Decrease in notes receivable and accrued interest receivable	535	456
Increase in direct financing lease receivable	(2,795)	(1,363)
Increase in other assets	(4,561)	(3,452)
Decrease in accounts payable and accrued liabilities	(969)	(551)
Decrease (increase) in unearned rents and interest	(1,767)	198
Net operating cash provided by continuing operations	112,866	110,404
Net operating cash used by discontinued operations		(27)
Net cash provided by operating activities	112,866	110,377
Investing activities:		
Acquisition of rental properties and other assets	(3,205)	(139,957)
Investment in unconsolidated joint venture	(13)	(116)
Investment in mortgage notes receivable	(33,555)	(173,871)
Proceeds from mortgage note receivable paydown	3,512	
Investment in promissory notes receivable	(4,108)	(10,149)
Proceeds from promissory note receivable paydown	1,000	
Investment in direct financing lease, net		(121,785)
Additions to properties under development	(17,672)	(28,748)
Net cash used in investing activities from continued operations	(54,041)	(474,626)
Net proceeds from sale of real estate from discontinued operations		986

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Net cash used in investing activities	(54,041)	(473,640)
Financing activities:		
Proceeds from long-term debt facilities	68,006	476,491
Principal payments on long-term debt	(158,579)	(332,324)
Deferred financing fees paid	(4,950)	(2,917)
Net proceeds from issuance of common shares	94,312	224,226
Net proceeds from issuance of preferred shares		83,438
Impact of stock option exercises, net		(147)
Proceeds from payment on shareholder loan		1,600
Purchase of common shares for treasury	(1,202)	(777)
Distributions paid to noncontrolling interests	(196)	(71)
Dividends paid to shareholders	(95,633)	(89,850)
Net cash provided (used) by financing activities	(98,242)	359,669
Effect of exchange rate changes on cash	531	(451)
Net decrease in cash and cash equivalents	(38,886)	(4,045)
Cash and cash equivalents at beginning of the period	50,082	15,170
Cash and cash equivalents at end of the period	\$ 11,196	\$ 11,125

Supplemental information continued on next page.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

Continued from previous page.

	Nine Months Ended September	
	30,	
	2009	2008
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	\$ 29,382	\$ 16,522
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	\$ 4,368	\$ 6,028
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 52,595	\$ 51,125
Cash received during the period for income taxes	\$ (500)	\$ (701)
See accompanying notes to consolidated financial statements.		

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ENTERTAINMENT PROPERTIES TRUST
Notes to Consolidated Financial Statements (Unaudited)

1. Organization

Description of Business

Entertainment Properties Trust (the Company) is a Maryland real estate investment trust (REIT) organized on August 29, 1997. The Company develops, owns, leases and finances megaplex theatres, entertainment retail centers (centers generally anchored by an entertainment component such as a megaplex theatre and containing other entertainment-related properties), and destination recreational and specialty properties. The Company's properties are located in the United States and Canada.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. In addition, operating results for the nine month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The Company consolidates certain entities if it is deemed to be the primary beneficiary in a variable interest entity (VIE), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic on Consolidation. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in the Consolidation Topic of the FASB ASC, or does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

The Company reports its noncontrolling interests as required by the Consolidation Topic of the FASB ASC. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in the subsidiary that are held by owners other than the parent are noncontrolling interests. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of income, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Consolidated statements of changes in shareholder's equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity. The Company does not have any redeemable noncontrolling interests.

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The consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (SEC) on February 24, 2009.

Revenue Recognition

Rents that are fixed and determinable are recognized on a straight-line basis over the minimum terms of the leases. Base rent escalation on leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. Straight-line rent receivable is included in accounts receivable and was \$25.5 million and \$23.1 million at September 30, 2009 and December 31, 2008, respectively. In addition, most of the Company's tenants are subject to additional rents if gross revenues of the properties exceed certain thresholds defined in the lease agreements (percentage rents). Percentage rents are recognized at the time when specific triggering events occur as provided by the lease agreements. Percentage rents of \$1.2 million and \$1.5 million were recognized for the nine months ended September 30, 2009 and 2008, respectively. Lease termination fees are recognized when the related leases are canceled and the Company has no obligation to provide services to such former tenants. No termination fees were recognized during the nine months ended September 30, 2009 and 2008.

Direct financing lease income is recognized on the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent management's initial estimates of fair value of the leased assets at the expiration of the lease, not to exceed original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real estate values. The estimated unguaranteed residual value is reviewed on an annual basis to determine if there are other than temporary impairments. The Company evaluates on an annual basis during the second quarter the collectibility of its direct financing lease receivable and unguaranteed residual value to determine whether they are impaired. A direct financing lease receivable is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a direct financing lease receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the direct financing lease receivable's effective interest rate or to the fair value of the underlying collateral, less costs to sell, if such receivable is collateralized.

Rental Properties

Rental properties are carried at cost less accumulated depreciation. Costs incurred for the acquisition and development of the properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 40 years for buildings and 3 to 25 years for furniture, fixtures and equipment. Tenant improvements, including allowances, are depreciated over the shorter of the base term of the lease or the estimated useful life. Expenditures for ordinary maintenance and repairs are charged to operations in the period incurred. Significant renovations and improvements which improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful life.

Management reviews a property for impairment whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is

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based on an estimate of undiscounted future cash flows expected to result from its use and eventual disposition. If impairment exists due to the inability to recover the carrying value of the property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value.

Allowance for Doubtful Accounts

The Company makes quarterly estimates of the collectibility of its accounts receivable related to base rents, tenant escalations (straight-line rents), reimbursements and other revenue or income. The Company specifically analyzes trends in accounts receivable, historical bad debts, customer credit worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. In addition, when customers are in bankruptcy, the Company makes estimates of the expected recovery of pre-petition administrative and damage claims. These estimates have a direct impact on the Company's net income.

Mortgage Notes and Other Notes Receivable

Mortgage notes and other notes receivable, including related accrued interest receivable, consist of loans originated by the Company and the related accrued and unpaid interest income as of the balance sheet date. Mortgage notes and other notes receivable are initially recorded at the amount advanced to the borrower and the Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them over the term of the related loan. Interest income on performing loans is accrued as earned. The Company evaluates the collectibility of both interest and principal of each of its loans to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, the Company determines that it is probable that it will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or to the fair value of the underlying collateral, less costs to sell, if the loan is collateralized. For impaired loans, interest income is recognized on a cash basis, unless the Company determines based on the loan to estimated fair value ratio the loan should be on the cost recovery method, and any cash payments received would then be reflected as a reduction of principal. Interest income recognition is recommenced when the impaired loan becomes contractually current and performance is demonstrated to be resumed.

Concentrations of Risk

American Multi-Cinema, Inc. (AMC) is the lessee of a substantial portion (51%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at September 30, 2009 as a result of a series of sale leaseback transactions pertaining to a number of AMC megaplex theatres. A substantial portion of the Company's rental revenues (approximately \$72.7 million or 48% and \$73.1 million or 48% for the nine months ended September 30, 2009 and 2008, respectively) result from the rental payments by AMC under the leases, or its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC's obligations under the leases. AMCE had total assets of \$3.7 billion and \$3.8 billion, total liabilities of \$2.7 billion and \$2.7 billion and total stockholders' equity of \$1.0 billion and \$1.1 billion at April 2, 2009 and April 3, 2008, respectively. AMCE had a net loss of \$81.2 million for the fifty-two weeks ended April 2, 2009 and net earnings of \$43.4 million for the fifty-three weeks ended April 3, 2008. In addition, AMCE had net earnings of \$8.6 million for the thirteen weeks ended July 2, 2009. AMCE has publicly held debt and the foregoing financial information was reported in its consolidated financial information which is publicly available.

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For the nine months ended September 30, 2009 and 2008, respectively, approximately \$26.4 million, or 13%, and \$29.1 million, or 14%, of total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada. For the nine months ended September 30, 2008, \$42.2 million, or 20%, of our total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada combined with the mortgage financing interest related to the Company's mortgage note receivable held in Canada and initially funded on June 1, 2005. For the nine months ended September 30, 2009, no mortgage financing interest income was recognized related to the Company's mortgage note receivable held in Canada as further described in Note 5. The Company's wholly owned subsidiaries that hold the Canadian entertainment retail centers, third party debt and mortgage note receivable (net of loan loss reserve) represent approximately \$222.3 million or 17% and \$219.5 million or 17% of the Company's net assets as of September 30, 2009 and December 31, 2008, respectively.

Share-Based Compensation

Share-based compensation to employees of the Company is determined pursuant to the Annual Incentive Program and the Long-Term Incentive Plan. Share-based compensation to non-employee trustees of the Company is determined pursuant to the director compensation program. Prior to May 9, 2007, all common shares and options to purchase common shares (share options) were issued under the 1997 Share Incentive Plan. The 2007 Equity Incentive Plan was approved by shareholders at the May 9, 2007 annual meeting and this plan replaced the 1997 Share Incentive Plan. Accordingly, all common shares and options to purchase common shares granted on or after May 9, 2007 are issued under the 2007 Equity Incentive Plan.

The Company accounts for share based compensation under the FASB ASC Topic on Stock Compensation. Share based compensation expense consists of share option expense, amortization of nonvested share grants, and shares and share units issued to non-employee Trustees for payment of their annual retainers. Share based compensation is included in general and administrative expense in the accompanying consolidated statements of income, and totaled \$3.2 million and \$3.0 million for the nine months ended September 30, 2009 and 2008, respectively.

Share Options

Share options are granted to employees pursuant to the Long-Term Incentive Plan and to non-employee Trustees for their service to the Company. The fair value of share options granted is estimated at the date of grant using the Black-Scholes option pricing model. Share options granted to employees vest over a period of four to five years and share option expense for these options is recognized on a straight-line basis over the vesting period, except for those unvested options held by a retired executive which were fully expensed as of June 30, 2006. Share options granted to non-employee Trustees vest immediately but may not be exercised for a period of one year from the grant date. Share option expense for non-employee Trustees is recognized on a straight-line basis over the year of service by the non-employee Trustees.

The expense related to share options included in the determination of net income for the nine months ended September 30, 2009 and 2008 was \$505 thousand and \$334 thousand, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates: risk-free interest rate of 2.6% to 2.8% and 3.2% to 3.5% for the nine months ended September 30, 2009 and 2008, respectively, dividend yield of 6.5% to 6.6% and 6.7% for the nine months ended September 30, 2009 and 2008, respectively, volatility factors in the expected market price of the Company's common shares of 31.4% to 37.5% and 23.2% for the nine months ended September 30, 2009 and 2008, respectively, no expected forfeitures and an expected life of eight years. The Company uses historical data to estimate the expected life of the option and the risk-free interest rate

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is based on the U.S. Treasury yield curve in effect at the time of grant. Additionally, expected volatility is computed based on the average historical volatility of the Company's publicly traded shares.

Nonvested Shares Issued to Employees

The Company grants nonvested shares to employees pursuant to both the Annual Incentive Program and the Long-Term Incentive Plan. The Company amortizes the expense related to the nonvested shares awarded to employees under the Long-Term Incentive Plan and the premium awarded under the nonvested share alternative of the Annual Incentive Program on a straight-line basis over the future vesting period (three to five years). Total expense recognized related to all nonvested shares was \$2.5 million and \$2.4 million for the nine months ended September 30, 2009 and 2008.

Shares Issued to Non-Employee Trustees

Prior to 2009, the Company issued shares to non-employee Trustees for payment of their annual retainers. These shares vested immediately but could not be sold for a period of one year from the grant date. This expense was amortized by the Company on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to shares issued to non-employee Trustees was \$111 thousand and \$257 thousand for the nine months ended September 30, 2009 and 2008, respectively.

Restricted Share Units Issued to Non-Employee Trustees

In 2009, the Company issued restricted share units to non-employee Trustees for payment of their annual retainers. The fair value of the share units granted was based on the share price at the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee trustee, and ranges from three years from the grant date to upon termination of service. This expense was amortized by the Company on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to shares issued to non-employee Trustees was \$163 thousand for the nine months ended September 30, 2009.

Derivative Instruments

The Company has acquired certain derivative instruments to reduce exposure to fluctuations in foreign currency exchange rates and variable interest rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These derivatives consist of foreign currency forward contracts, cross currency swaps and interest rate swaps.

As required by the Derivatives and Hedging Topic of the FASB ASC, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges.

Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the

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hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under the Derivatives and Hedging Topic of the FASB ASC.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current period presentation.

Subsequent Events

The Company evaluated subsequent events through the time of filing these financial statements with the SEC on November 5, 2009.

3. Rental Properties

The following table summarizes the carrying amounts of rental properties as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
	(Unaudited)	
Buildings and improvements	\$ 1,497,819	\$ 1,452,500
Furniture, fixtures & equipment	63,790	62,090
Land	444,317	434,514
	2,005,926	1,949,104
Accumulated depreciation	(247,425)	(214,078)
Impairment of property carrying value	(32,365)	
Total	\$ 1,726,136	\$ 1,735,026

Depreciation expense on rental properties was \$32.4 million and \$29.8 million for the nine months ended September 30, 2009 and 2008, respectively.

4. Impairment Charge

The Company's entertainment retail center in White Plains, New York, held in a consolidated joint venture, was acquired with mortgage financing that had a loan to fair value ratio of more than 70% at the time of the Company's acquisition of its interests in May 2007. The loan is personally guaranteed by the principals of our minority partner, one of which is the same individual that is either personally, or through his related interests, in default on several other obligations to the Company (see Note 5 below). The debt on this center is due in October 2010, and absent any improvement in the performance of the asset, the lender will likely require additional credit support and fees to extend the loan. Any such extension would also require the cooperation of the partners in the joint venture. Without a resolution of our disputes with the principals of our minority partner, there can be no assurance that the Company and the minority partner will cooperate. Given that the debt is currently non-recourse to the Company, the Company may elect not to further support the joint venture, which may include a decision to surrender the property at the loan's maturity. Accordingly, the Company performed an impairment assessment of this asset at September 30, 2009. It was determined that the carrying value of the asset exceeded the estimated fair value by \$35.8 million, and an impairment

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charge was recorded at September 30, 2009 for this amount, which was comprised of \$32.4 million related to real estate investment and \$3.4 million related to in-place leases. Management determined the fair value of the asset taking into account various factors, including an independent appraisal prepared as of September 30, 2009 which indicated a value of \$118.0 million. In accordance with the FASB ASC Topic on Consolidation and the Company's policy for allocation of income and loss for this joint venture, a loss of \$15.1 million related to the impairment charge was allocated to the noncontrolling interest related to this venture. The noncontrolling interest related to White Plains was a deficit balance of \$8.0 million at September 30, 2009 which is recorded as a component of shareholders' equity.

5. Investments in Mortgage Notes and Notes Receivable

Concord Resorts

On August 20, 2008, a wholly-owned subsidiary of the Company provided a secured first mortgage loan of \$225.0 million to Concord Resorts, LLC (Concord Resorts), an entity controlled by Louis Cappelli, related to a planned casino and resort development in Sullivan County, New York. The Company's investment is secured by a first mortgage on the resort complex real estate totaling 1,584 acres. In addition, the Company has a second mortgage on the remaining 139 acres of the casino related real estate and the loan is personally guaranteed by Louis Cappelli. The Company has certain rights to convert its mortgage interest into fee ownership as the project is further developed. The net carrying value of this mortgage note receivable at September 30, 2009 was \$133.2 million which was funded under the original \$225.0 million secured first mortgage commitment.

Due to the economic downturn, certain other lenders on the development have either reduced their commitments or withdrawn from the project. The planned initial phase of the casino and resort development has been downsized from an estimated \$1 billion to an estimated \$600 million and Mr. Cappelli is attempting to secure the necessary financing. The New York legislature has passed legislation authorizing the benefits of a special reduced tax rate on gaming receipts in Sullivan County, New York if at least \$600 million is invested and 1,000 new jobs are created. As a result of these issues, the development project has been slowed, and there can be no assurance that Mr. Cappelli will obtain the financing necessary to complete the project. Due to these challenges, Concord Resorts has ceased making interest payments to the Company as contractually obligated under the loan agreement. The Company has evaluated its mortgage note receivable for impairment and has determined it is impaired due to the inability of the borrower to meet its contractual obligations per the agreement. The Company's accounting policy is to recognize interest income on impaired loans on a cash basis. Accrual interest income recognition for book purposes was ceased on January 1, 2009 and therefore no interest income has been recorded during the nine months ended September 30, 2009. Interest income recognized on this mortgage note receivable for the nine months ended September 30, 2008 was \$1.6 million. Management of the Company determined that no loan loss reserve was necessary for this note taking into account an independent appraisal as of April 30, 2009 of the primary collateral, 1,584 acres of land, which indicated a value in excess of the loan balance.

The Company's original loan commitment to fund an additional \$91.8 million to Concord Resorts is no longer applicable due to the developer's decision to downsize the initial phase of the project to an investment level of \$600 million. The funding of any additional investment in the project by the Company will be subject to satisfaction of certain conditions, including but not limited to a reduction from the aforementioned \$91.8 million.

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Toronto Dundas Square Project

During the nine months ended September 30, 2009, a wholly-owned subsidiary of the Company invested an additional \$5.1 million Canadian (CAD) (\$4.6 million U.S.) bringing the total investment to CAD \$130.6 million (\$122.0 million U.S.) in the mortgage note receivable from Metropolis Limited Partnership (the Partnership) related to the construction of the Toronto Dundas Square Project, a 13 level entertainment retail center in downtown Toronto that was completed in May 2008 for a total cost of approximately CAD \$330 million. Additionally, as of September 30, 2009, the Company had posted irrevocable stand-by letters of credit related to this project totaling \$4.0 million U.S. which are expected to be cancelled or drawn upon during 2009. The loan is denominated in Canadian dollars and is secured by a second mortgage on the Toronto Dundas Square Project.

A group of banks (the bank syndicate) has provided first mortgage construction financing to the Partnership totaling approximately CAD \$119.0 million (\$111.1 million U.S.) as of September 30, 2009. In April 2009, the bank syndicate and the Company elected to pursue a receivership after it became apparent that a restructuring of the existing equity interests was no longer possible. On April 27, 2009, the court appointed a receiver who is overseeing the sale of the property. As a result of this process, the Company could become the owner of the property. The Company is currently negotiating a refinancing of the first mortgage should it become the owner of the property. While there can be no assurance that the Company will successfully obtain the first mortgage refinancing, based on preliminary negotiations, the Company currently estimates a new first mortgage loan would provide proceeds of CAD \$100 million. If the Company becomes the owner through the sale process, the Company expects to consolidate the financial results of the property subsequent to the purchase.

The Company has evaluated this mortgage note receivable for impairment. Because repayment of the mortgage note receivable did not meet the contractual terms of the agreement, the Company has determined the loan is impaired and has ceased accruing interest income as of January 1, 2009 on the loan for book purposes. Accordingly, no interest income was recognized for the nine months ended September 30, 2009 and no interest income will be recognized in future periods. Interest income recognized on this loan for the nine months ended September 30, 2008 was CAD \$13.3 million (\$13.0 million U.S.). Furthermore, management of the Company reviewed the fair value of the property at September 30, 2009, taking into account various factors including an independent appraisal completed in September, 2009 and determined a provision for loan loss of CAD \$37.6 million (\$34.8 million U.S.) was necessary. Therefore, the net carrying value of this mortgage note receivable at September 30, 2009 was CAD \$93.0 million (\$86.9 million U.S.).

Cappelli Related Notes

The Company also has two \$10 million notes receivable that were due on February 28, 2009 and March 1, 2009, respectively. The notes bear interest at 10%. Neither note was repaid at maturity. One of the notes is due from the Company's minority joint venture partner in New Roc, an entertainment retail center in New Rochelle, New York, and this note is secured by such partner's interest. The minority joint venture partner is an entity controlled by Louis Cappelli and Louis Cappelli has also personally guaranteed the loan. The other note is due from Louis Cappelli personally and in conjunction with this note, the Company received an option to purchase 50% of Louis Cappelli's interest (or Louis Cappelli's related interests) in three other projects.

The Company has evaluated these two notes receivable for impairment, and has determined that they are impaired due to the inability of the borrower to meet its contractual obligations per the original agreements. Accordingly, accrual interest income recognition was ceased on January 1, 2009.

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Interest income of \$833 thousand has been recorded during the nine months ended September 30, 2009 which represents payments received by the Company prior to July 1, 2009. No interest payments related to these two notes receivable were received by the Company for the three months ended September 30, 2009. Interest income recognized on these loans for the three and nine months ended September 30, 2008 was \$506 thousand and \$1.3 million, respectively. Management of the Company has evaluated the fair value of the underlying collateral of the notes and has concluded that a loan loss reserve of \$18.0 million was necessary at September 30, 2009.

Additionally, the Company has a \$10 million note receivable that is due May 8, 2017 and bears interest at 10%. The note is due from the Company's minority joint venture partner in City Center at White Plains, an entertainment retail center in White Plains, New York, and the note is secured by such partner's interest. The minority joint venture partner is an entity controlled by Louis Cappelli and another individual, and each personally guarantees the loan.

No interest payments were received by the Company on this note receivable for the three months ended September 30, 2009. The Company evaluated this note receivable for impairment and determined that it is impaired due to the inability of the borrower to meet its contractual obligations per the original agreement. Accordingly, accrual interest income recognition was ceased on July 1, 2009. Interest income of \$500 thousand has been recorded during the nine months ended September 30, 2009 which represents payments received by the Company prior to July 1, 2009. Interest income recognized on this loan for the three and nine months ended September 30, 2008 was \$256 thousand and \$760 thousand, respectively. Management of the Company has evaluated the fair value of the underlying collateral of the note and has concluded that a loan loss reserve of \$10.0 million was necessary at September 30, 2009.

Other Mortgage Notes and Notes Receivable

On January 26, 2009, a wholly-owned subsidiary of the Company entered into a credit agreement with Rb Wine Associates, LLC to provide a \$2.0 million revolving credit facility that matures on January 1, 2010. This note is secured by certain pledge agreements and other collateral. Interest accrues on the outstanding principal balance at an annual rate of 15%. Interest is payable monthly at an annual rate of 9.25% and the remaining accrued but unpaid interest and principal is due at maturity. During the nine months ended September 30, 2009, the Company advanced \$1.4 million under this credit facility.

On February 20, 2009, a wholly-owned subsidiary of the Company entered into a \$3.0 million promissory note with Sapphire Wines LLC. The note bears interest at 15% and it matured on November 1, 2009. This note is secured by certain pledge agreements and other collateral. Because interest and principal payments are not being received per the contractual terms of the agreement, this note is considered impaired and is included in the \$11.8 million of impaired notes receivable discussed further below.

On May 8, 2009, the Company received payment in full on its mortgage note receivable and related accrued interest of \$3.7 million from Prairie Creek Properties, LLC. The Company advanced \$3.5 million during the year ended December 31, 2007 under this agreement for the development of an approximately 9,000 seat amphitheatre in Hoffman Estates, Illinois.

On June 26, 2009, the Company received payment in full on its note receivable and related accrued interest of \$1.0 million from an affiliate of one of its theatre operators. The Company advanced \$1.0 million during the year ended December 31, 2007 under this agreement for the development of a megaplex theatre.

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During the nine months ended September 30, 2009, the Company advanced \$29.0 million under its secured mortgage loan agreements with SVV I, LLC and an affiliate of SVV I, LLC (together SVVI) for the development of a water-park anchored entertainment village in Kansas City, Kansas, the first phase of which opened in July 2009. On May 6, 2009, the Company reduced its commitment on this project from \$175.0 million to \$163.5 million and added to its collateral position by placing a mortgage on the two other water-parks, located in New Braunfels and South Padre Island, Texas, owned and operated by the entities controlled by the principals of SVVI. The mortgage note on the property in Kansas City, Kansas and the mortgage note on the Texas properties have cross-default and cross-collateral provisions. Pursuant to the mortgage on the Texas properties, only a seasonal line of credit secured by the Texas parks totaling not more than \$5.0 million at any time ranks superior to the Company's collateral position. Furthermore, the interest rates increased from LIBOR plus 3.5% points to 7% on July 4, 2009, and the loans were extended from September 30, 2012 to May 1, 2019. Interest income will continue to be recognized on the accrual basis. SVVI is required to fund a debt service reserve for off-season fixed payments (those due from September to May). The reserve is to be funded by equal monthly installments during the months of June, July and August. The Company also will receive a percentage of revenue from all three parks after certain threshold levels are achieved that may increase the return on the Company's invested capital from 7% to as high as 10%. Through September 30, 2009, the Company has funded approximately \$163.3 million on the mortgage notes.

Additionally, the Company has three notes receivable totaling \$11.8 million at September 30, 2009 that are impaired due to the inability of the borrowers to meet their contractual obligations per the original agreements. Accordingly, accrual interest income recognition for these notes was ceased on January 1, 2009. Interest income of \$234 thousand and \$597 thousand, respectively has been recorded during the three and nine months ended September 30, 2009 which represents payments received by the Company. Interest income recognized on these loans for the three and nine months ended September 30, 2008 was \$200 thousand and \$601 thousand, respectively. Management of the Company has evaluated the fair value of the underlying collateral of the notes and has concluded that a loan loss reserve of \$3.0 million was necessary at September 30, 2009.

The following summarizes the activity within the allowance for loan losses for the nine months ended September 30, 2009 (in thousands):

	2009
Allowance for loan losses at January 1	\$
Provision for loan losses	65,757
Charge-offs	
Recoveries	
Impact of foreign currency translation on ending balance	361
Allowance for loan losses at September 30	\$ 66,118

There was no allowance for loan losses for the nine months ended September 30, 2008.

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The following table summarizes the carrying amounts of mortgage notes and related accrued interest receivable, net at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Mortgage notes and related accrued interest receivable	\$ 553,187	\$ 508,506
Less: allowance for loan losses	(35,118)	
Mortgage notes and related accrued interest receivable, net	\$ 518,069	\$ 508,506

The following table summarizes the carrying amounts of notes and related accrued interest receivable, net at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Notes and related accrued interest receivable	\$ 43,395	\$ 40,338
Less: allowance for loan losses	(31,000)	
Notes and related accrued interest receivable, net	\$ 12,395	\$ 40,338

6. Unconsolidated Real Estate Joint Ventures

At September 30, 2009, the Company had a 21.7% and 21.8% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively. The Company accounts for its investment in these joint ventures under the equity method of accounting.

The Company recognized income of \$421 and \$400 (in thousands) from its investment in the Atlantic-EPR I joint venture during the first nine months of 2009 and 2008, respectively. The Company also received distributions from Atlantic-EPR I of \$465 and \$449 (in thousands) during the first nine months of 2009 and 2008, respectively.

Unaudited condensed financial information for Atlantic-EPR I is as follows as of and for the nine months ended September 30, 2009 and 2008 (in thousands):

	2009	2008
Rental properties, net	\$27,474	28,118
Cash	141	510
Long-term debt (due May 2010)	15,109	15,515
Partners equity	12,412	12,646
Rental revenue	3,324	3,302
Net income	1,825	1,793

The Company recognized income of \$252 and \$242 (in thousands) from its investment in the Atlantic-EPR II joint venture during the first nine months of 2009 and 2008, respectively. The Company also received distributions from Atlantic-EPR II of \$279 and \$272 (in thousands) during the first nine months of 2009 and 2008, respectively.

Unaudited condensed financial information for Atlantic-EPR II is as follows as of and for the nine months ended September 30, 2009 and 2008 (in thousands):

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	2009	2008
Rental properties, net	\$21,613	22,074
Cash	157	100
Long-term debt (due September 2013)	13,035	13,360
Note payable to Entertainment Properties Trust	117	117
Partners equity	8,351	8,496
Rental revenue	2,154	2,083
Net income	1,013	997

The joint venture agreements for Atlantic-EPR I and Atlantic-EPR II allow the Company's partner, Atlantic of Hamburg, Germany (Atlantic), to exchange up to a maximum of 10% of its ownership interest per year in each of the joint ventures for common shares of the Company or, at the discretion of the Company, the cash value of those shares as defined in each of the joint venture agreements. During 2008, the Company paid Atlantic-EPR I and Atlantic-EPR II cash of \$133 and \$79 (in thousands), respectively, in exchange for additional ownership in each joint venture of 0.7%. During the first quarter of 2009, the Company paid Atlantic cash of \$105 (in thousands) in exchange for additional ownership of 0.7% for Atlantic-EPR I. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

On April 2, 2008, the Company acquired, through a wholly-owned subsidiary, the remaining 50% ownership interest in CS Fund I and CS Fund I became a wholly-owned subsidiary. Prior to the date of this acquisition, CS Fund I was accounted for as an unconsolidated real estate joint venture. During the first nine months of 2008, the Company recognized income of \$1.1 million and received distributions of \$1.3 million related to this investment.

7. Amendment and Restatement of Revolving Credit Facility

On June 30, 2009, the Company amended and restated its unsecured revolving credit facility (the facility). The size of the facility decreased from \$235 million to \$215 million and includes an accordion feature in which the facility can be increased to up to \$300 million subject to certain conditions, including lender consent. The facility continues to be supported by a borrowing base of assets, and is now secured by a pledge of the equity of each entity that holds a borrowing base asset. The facility bears interest at a floating rate equal to LIBOR (subject to a 2% floor) plus 3.5%. Alternatively, the Company can elect to have interest accrue at the base rate plus 3.5%. The base rate is defined as the greater of the prime rate, the federal funds rate plus 0.5%, or the then current 30-day LIBOR (subject to a 2% floor). The facility has a term expiring October 26, 2011 with a one year extension available at the Company's option, subject to certain terms and conditions including the payment of an extension fee. As a result of this amendment and restatement, the Company expensed certain unamortized financing costs, totaling approximately \$117 thousand, in the second quarter of 2009.

The facility also requires the Company to grant mortgage liens on the underlying borrowing base properties if the ratio of its consolidated debt to the value of its consolidated assets exceeds specified thresholds. As of September 30, 2009, this ratio was below the specified thresholds and the Company has not granted any mortgage liens on the underlying borrowing base properties. The financial covenant relating to minimum liquidity now requires the Company to maintain excess availability under the facility for the 90-day period preceding the maturity date of a loan related to development of a planned casino and resort in Sullivan County, New York, in an amount equal to at least the unpaid balance of such loan. This loan had an unpaid balance of \$56.3 million as of September 30, 2009.

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8. Mortgage Notes Payable

On February 25, 2009, VinREIT, LLC (VinREIT), a subsidiary that holds the Company's vineyard and winery assets, obtained a \$4.0 million term loan under VinREIT's \$160.0 million credit facility. The loan matures on December 1, 2017, is secured by fixtures and equipment and bears interest at LIBOR plus 2.00%. Principal and interest is due monthly and this loan will be fully amortized at maturity. Subsequent to the closing of this loan, approximately \$63.3 million of the facility remains available. The net proceeds from the loan were used to pay down outstanding indebtedness under the Company's revolving credit facility.

9. Derivative Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to the effect of changes in foreign currency exchange rates and interest rates on its LIBOR based borrowings. The Company limits this risk by following established risk management policies and procedures including the use of derivatives. The Company's objective in using derivatives is to add stability to reported earnings and to manage its exposure to foreign exchange and interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps, cross currency swaps and foreign currency forwards.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements on its LIBOR based borrowings. To accomplish this objective, the Company currently uses interest rate swaps as its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

At September 30, 2009, the Company had nine interest rate swaps outstanding that were designated as cash flow hedges of interest rate risk and had a combined outstanding notional amount of \$204.5 million.

The effective portion of changes in the fair value of interest rate derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ending September 30, 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on cash flow hedges was recognized during the nine months ending September 30, 2009.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. As of September 30, 2009, the Company estimates that during the twelve months ending September 30, 2010, \$6.7 million will be reclassified from accumulated other comprehensive income to interest expense.

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Cash Flow Hedges of Foreign Exchange Risk

The Company is exposed to foreign currency exchange risk against its functional currency, the US dollar, on its four Canadian properties and its mortgage note receivable denominated in Canadian dollars. The Company uses a cross currency swap to mitigate its exposure to fluctuations in the CAD to U.S. dollar exchange rate on its four Canadian properties. This foreign currency derivative should hedge a significant portion of the Company's expected CAD denominated cash flow of the four Canadian properties through February 2014 as their impact on the Company's cash flow when settled should move in the opposite direction of the exchange rates utilized to translate revenues and expenses of these properties.

At September 30, 2009, the Company's cross-currency swap had a fixed notional value of \$76.0 million CAD and \$71.5 million U.S. The net effect of this swap is to lock in an exchange rate of \$1.05 CAD per U.S. dollar on approximately \$13 million of annual CAD denominated cash flows. The effective portion of changes in the fair value of foreign currency derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in accumulated other comprehensive income and 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 derivative, as well as amounts excluded from the assessment of hedge effectiveness, is recognized directly in earnings. No hedge ineffectiveness on foreign currency derivatives has been recognized for the nine months ended September 30, 2009.

Net Investment Hedges

As discussed above, the Company is exposed to fluctuations in foreign exchange rates on its four Canadian properties and its mortgage note receivable denominated in Canadian dollars. As such, the Company also uses currency forward agreements to hedge its exposure to changes in foreign exchange rates on these investments. Currency forward agreements involve fixing the CAD to U.S. dollar exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward agreements are typically cash settled in US dollars for their fair value at or close to their settlement date. In order to hedge the net investment in the Company's four Canadian properties, the Company entered into a forward contract with a fixed notional value of \$100 million CAD and \$96.1 million U.S. with a February 2014 settlement which coincides with the maturity of the Company's underlying mortgage on these four properties. The exchange rate of this forward contract is approximately \$1.04 CAD per U.S. dollar. This forward contract should hedge a significant portion of the Company's CAD denominated net investment in these four centers through February 2014 as the impact on accumulated other comprehensive income from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of its four Canadian properties.

For foreign currency derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in accumulated other comprehensive income as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on net investment hedges has been recognized for the nine months ended September 30, 2009. Amounts are reclassified out of accumulated other comprehensive income into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 10 for disclosures relating to the fair value of the Company's derivative instruments. Below is a summary of the effect of derivative instruments on the consolidated statement of income for the nine months ended September 30, 2009:

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**Effect of Derivative Instruments on the Consolidated Statement of Income
for the nine months ended September 30, 2009
(Unaudited, dollars in thousands)**

Description	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)	Amount of Income or (Expense) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Recognized in Earnings on Derivative (Ineffective Portion)
Interest Rate Swaps	\$ 3,921	\$ (5,273)*	\$
Cross Currency Swaps	(6,204)	875**	
Currency Forward Agreements	(4,741)		
Total	\$ (7,024)	\$ (4,398)	\$

* Included in Interest expense in accompanying consolidated statements of income.

** Included in Other income in the accompanying consolidated statements of income.

Credit-risk-related Contingent Features

The Company has agreements with each of its interest rate derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its interest rate derivative obligations.

As of September 30, 2009, the fair value of derivatives in a liability position related to these agreements was \$11.6 million. If the Company breached any of the contractual provisions of the derivative contracts, it would be required to settle its obligations under the agreements at their termination value of \$12.4 million.

10. Fair Value Disclosures

The FASB ASC Topic on Fair Value Measurements (Topic 820) defines fair value, establishes a

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framework for measuring fair value, and expands disclosures about fair value measurements. It applies to reported balances that are required or permitted to be measured at fair value and does not require any new fair value measurements of reported balances. Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Derivative Financial Instruments

The Company uses interest rate swaps, foreign currency forwards and cross currency swaps to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of Topic 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives also utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of September 30, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are significant to the overall valuation of its currency forward agreements, cross currency swaps and five of its interest rate swaps and therefore, has classified these derivatives as Level 3 within the fair value reporting hierarchy.

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The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall and by derivative type.

Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2009
(Unaudited, dollars in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2009
Interest Rate Swaps*	\$	\$ (3,155)	\$ (8,487)	\$(11,642)
Cross Currency Swaps**	\$	\$	\$ 1,428	\$ 1,428
Currency Forward Agreements**	\$	\$	\$ 3,331	\$ 3,331

* Included in Accounts payable and accrued liabilities in the accompanying consolidated balance sheet.

** Included in Other Assets in the accompanying consolidated balance sheet.

The table below presents a reconciliation of the Company's beginning and ending balances of liabilities having fair value measurements based on significant unobservable inputs (Level 3) for the nine months ended September 30, 2009.

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**Level 3 Fair Value Measurements for the Nine Months Ended September 30, 2009
(Unaudited, dollars in thousands)**

Beginning Balance as of December 31,	Transfers into	Transfers out of	Gains (Losses) Included	Gains (Losses) Included	Total Gains	Ending Balance as of September 30,
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