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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

o	**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 1-12244

NEW PLAN EXCEL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**33-0160389**
(State or other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

420 Lexington Avenue, New York, New York 10170

(Address of Principal Executive Offices) (Zip Code)

212-869-3000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

The number of shares of common stock of the Registrant outstanding on August 1, 2006 was 104,801,970.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by New Plan Excel Realty Trust, Inc. (we), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations which may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to:

- national or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from economic downturns;
- the competitive environment in which we operate;
- property ownership and management risks;
- financial risks, such as the inability to obtain debt or equity financing on favorable terms;
- possible future downgrades in our credit rating;
- the level and volatility of interest rates and changes in the capitalization rates with respect to the acquisition and disposition of properties;
- financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws;
- the ability to maintain our status as a REIT for federal income tax purposes;
- governmental approvals, actions and initiatives;
- environmental/safety requirements and costs;
- risks of real estate acquisition and development, including the failure of pending developments and redevelopments to be completed on time and within budget and the failure of newly acquired or developed properties to perform as expected;
- risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns;
- risks of joint venture activities; and
- other risks identified in this Quarterly Report on Form 10-Q and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC) or in other documents that we publicly disseminate.

We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30 2006 (Unaudited)	2005	Six Months Ended June 30 2006 (Unaudited)	2005
Revenues:				
Rental income	$ 83,671	$ 98,957	$ 173,035	$ 197,186
Percentage rents	1,030	1,539	3,391	4,046
Expense reimbursements	26,800	28,567	48,714	53,607
Fee income	3,769	1,346	8,052	2,925
Total revenues	115,270	130,409	233,192	257,764
Operating Expenses:				
Operating costs	18,306	20,494	37,007	41,832
Real estate taxes	14,256	18,230	28,537	34,220
Depreciation and amortization	22,138	24,389	45,259	49,498
Provision for doubtful accounts	2,273	2,012	4,452	4,667
General and administrative	7,327	4,606	14,338	9,191
Total operating expenses	64,300	69,731	129,593	139,408
Income before real estate sales, minority interest and other income and expenses	50,970	60,678	103,599	118,356
Other income and expenses:				
Interest, dividend and other income	843	780	1,678	1,735
Equity in income of unconsolidated ventures	883	441	2,063	1,130
Interest expense	(22,894)	(28,178)	(45,675)	(55,509)
Minority interest in income of consolidated partnership and joint ventures	(201)	(1,134)	(351)	(1,416)
Income from continuing operations	29,601	32,587	61,314	64,296
Discontinued operations:				
Income from discontinued operations (Note 5)	5,068	8,110	11,864	15,087
Net income	$ 34,669	$ 40,697	$ 73,178	$ 79,383
Preferred dividends	(5,489)	(5,471)	(10,973)	(10,938)
Net income available to common stock basic	29,180	35,226	62,205	68,445
Minority interest in income of consolidated partnership	201	251	351	533
Net income available to common stock diluted	$ 29,381	$ 35,477	$ 62,556	$ 68,978
Basic earnings per common share:				
Income from continuing operations	$ 0.23	$ 0.26	$ 0.48	$ 0.52
Discontinued operations	0.05	0.08	0.12	0.14
Basic earnings per share	$ 0.28	$ 0.34	$ 0.60	$ 0.66
Diluted earnings per common share:				
Income from continuing operations	$ 0.22	$ 0.25	$ 0.47	$ 0.51
Discontinued operations	0.05	0.08	0.11	0.14
Diluted earnings per share	$ 0.27	$ 0.33	$ 0.58	$ 0.65
Average shares outstanding basic	104,493	103,164	104,376	103,002

Average shares outstanding diluted	108,894	106,685	108,750	106,404
Dividends per common share	$ 0.3125	$ 0.4125	$ 0.6250	$ 0.8250
Other comprehensive income:				
Net income	$ 34,669	$ 40,697	$ 73,176	$ 79,383
Unrealized (loss) gain on available-for-sale securities	(278)	564	256	325
Unrealized (loss) gain on deferred compensation	(34)	24	(16)	24
Realized loss on interest risk hedges, net	(42)	(157)	(97)	(2,168)
Unrealized gain (loss) on interest risk hedges, net	400	(5,475)	814	(791)
Comprehensive income	$ 34,715	$ 35,653	$ 74,133	$ 76,773

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

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

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Real estate:		
Land	$ 735,880	$ 724,901
Building and improvements	2,694,357	2,668,177
Accumulated depreciation and amortization	(408,362)	(376,816)
Net real estate	3,021,875	3,016,262
Real estate held for sale	35,337	19,244
Cash and cash equivalents	9,234	9,202
Restricted cash	19,657	19,906
Marketable securities	3,269	3,014
Receivables:		
Trade, net of allowance for doubtful accounts of $29,339 and $27,540 at June 30, 2006 and December 31, 2005, respectively	21,659	20,751
Deferred rent, net of allowance of $1,650 and $1,592 at June 30, 2006 and December 31, 2005, respectively	30,748	29,314
Other, net	21,432	25,138
Mortgages and notes receivable	731	795
Prepaid expenses and deferred charges	47,402	43,346
Investments in/advances to unconsolidated ventures	85,099	95,538
Intangible assets, net of accumulated amortization of $15,216 and $10,927 at June 30, 2006 and December 31, 2005, respectively	73,019	78,046
Other assets	11,747	9,206
Total assets	$ 3,381,209	$ 3,369,762
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgages payable, including unamortized premium of $12,382 and $13,871 at June 30, 2006 and December 31, 2005, respectively	$ 430,948	$ 433,653
Notes payable, net of unamortized discount of $4,381 and $4,822 at June 30, 2006 and December 31, 2005, respectively	966,791	968,347
Credit agreements	235,000	215,000
Capital leases	27,694	27,881
Dividends payable	37,957	37,826
Other liabilities	116,833	127,369
Tenant security deposits	10,997	10,641
Total liabilities	1,826,220	1,820,717
Minority interest in consolidated partnership and joint ventures	57,110	57,659
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 25,000 shares authorized; Series D: 1,500 depositary shares, each representing 1/10 of one share of Series D Cumulative Voting Step-Up Premium Rate Preferred, 150 shares issued and outstanding at June 30, 2006 and December 31, 2005; Series E: 8,000 depositary shares, each representing 1/10 of one share of 7.625% Series E Cumulative Redeemable Preferred, 800 shares issued and outstanding at June 30, 2006 and December 31, 2005	10	10
Common stock, $.01 par value, 250,000 shares authorized; 104,726 and 104,305 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	1,047	1,042
Additional paid-in capital	2,045,643	2,036,880
Accumulated other comprehensive loss	(7,117)	(8,074)
Accumulated distribution in excess of net income	(541,704)	(538,472)

Total stockholders equity	1,497,879	1,491,386
Total liabilities and stockholders equity	$ 3,381,209	$ 3,369,762

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2006 and 2005
(Unaudited, in thousands)

	June 30, 2006	June 30, 2005
Cash flows from operating activities:		
Net income	$ 73,178	$ 79,383
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	45,547	51,338
Amortization of net premium/discount on mortgages and notes payable	(1,047)	(1,644)
Amortization of deferred debt and loan acquisition costs	1,146	1,224
Amortization of stock options	1,163	891
Interest on swaps	851	197
Amortization of asset retirement liabilities	278	
Amortization of below market leases	(780)	
Gain on sale of discontinued operations, net	(10,139)	(11,696)
Minority interest in income of consolidated partnership	351	1,416
Impairment of real estate assets	305	
Equity in income of unconsolidated ventures	(2,063)	(1,131)
Distributions of income from unconsolidated ventures	2,875	
Changes in operating assets and liabilities, net:		
Change in restricted cash	250	3,708
Change in trade receivables	(908)	3,303
Change in deferred rent receivables	(1,450)	(3,472)
Change in other receivables	3,706	33
Change in other liabilities	(9,678)	7,112
Change in tenant security deposits	356	468
Change in sundry assets and liabilities	(3,396)	(6,718)
Net cash provided by operating activities	100,545	124,412
Cash flows from investing activities:		
Real estate acquisitions and building improvements	(54,112)	(71,343)
Acquisition, net of cash and restricted cash received	(16,985)	(56,129)
Proceeds from real estate sales, net	27,354	17,503
Repayments of mortgage notes receivable	64	10,650
Leasing commissions paid	(4,880)	(6,070)
Cash from joint venture consolidation (Note 2)		54
Cash paid for joint venture investment		(5,441)
Proceeds from sale of joint venture interest		8,160
Capital contributions to unconsolidated ventures	(5,312)	(6,300)
Distributions of capital from unconsolidated ventures	14,342	6,208
Net cash used in investing activities	(39,529)	(102,708)
Cash flows from financing activities:		
Principal payments of mortgages and notes payable	(10,356)	(20,526)
Proceeds from public debt offering		99,930
Repayment of public debt		(100,000)
Cash paid for swap agreement		(2,476)
Proceeds from credit facility borrowing	75,000	295,000
Repayment of credit facility	(55,000)	(206,000)
Financing fees	(179)	(2,024)
Distributions paid to minority partners	(1,920)	(1,483)
Dividends paid	(75,859)	(95,496)
Proceeds from exercise of stock options	3,236	7,347
Repayment of loans receivable for the purchase of common stock	115	118
Proceeds from dividend reinvestment plan	3,874	4,975
Net cash used in financing activities	(61,089)	(20,635)

Net (decrease) increase in cash and cash equivalents	(73)	1,069
Cash and cash equivalents at beginning of period	9,202	7,292
Cash and cash equivalents at end of period	$ 9,129	$ 8,361
Supplemental Cash Flow Disclosure, including Non-Cash Activities:		
Cash paid for interest	$ 50,702	$ 59,011
Capitalized interest	6,071	3,412
State and local taxes paid	210	(140)
Mortgages assumed, net	8,953	27,797
Partnership units issued in acquisition		14,547

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

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NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Description of Business

New Plan Excel Realty Trust, Inc. (together with its wholly-owned and majority-owned subsidiaries and consolidated variable interest entities, the Company) is operated as a self-administered, self-managed real estate investment trust (REIT). The principal business of the Company is the ownership and management of community and neighborhood shopping centers throughout the United States.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements reflect the accounts of the Company. The portion of these entities not owned by the Company is presented as minority interest as of and during the periods presented. All material inter-entity transactions have been eliminated.

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

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules of the SEC and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (GAAP). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income and comprehensive income for the three and six months ended June 30, 2006 are not necessarily indicative of the results expected for the full fiscal year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s latest annual report on Form 10-K.

Net Earnings per Share of Common Stock

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (SFAS No. 128), the Company presents both basic and diluted earnings per share. Net earnings per common share (basic EPS) is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Net earnings per share of common stock assuming dilution (diluted EPS) is computed by giving effect to all dilutive potential shares of common stock that were outstanding during the period. Dilutive potential shares of common stock consist of the incremental shares of common stock issuable upon (a) the conversion of (i) limited partnership units of Excel Realty Partners, L.P. (ERP), a Delaware limited partnership, (ii) convertible senior notes, (iii) restricted stock grants and (iv) contingent compensation awards and (b) the exercise of in-the-money stock options.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid debt instruments with maturities of three months or less at acquisition. Items classified as cash equivalents include insured bank certificates of deposit and commercial paper. At times, cash balances at a limited number of banks may exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions.

Restricted Cash

Restricted cash consists primarily of cash held in escrow accounts for deferred maintenance, capital improvements, environmental expenditures, taxes, insurance, operating expenses and debt service as required by certain loan agreements. Substantially all restricted cash is invested in money market mutual funds and carried at market value.

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of $29.3 million and $27.5 million as of June 30, 2006 and December 31, 2005, respectively. The Company makes estimates of the uncollectability of its accounts receivable related to base rents, expense reimbursements and other revenues. The Company analyzes accounts receivable and historical bad debt levels, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

Real Estate

Land, buildings and building and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, and ordinary repairs and maintenance are expensed as incurred. Land, buildings and building and tenant improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction costs, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development are capitalized. The Company ceases capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	35 to 40 years
Building Improvements	5 to 40 years
Tenant Improvements	The shorter of the term of the related lease or useful life

Business Combinations

In connection with the Company s acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and building and tenant improvements, are determined as if vacant, i.e., at replacement cost. Intangible assets, including the above-market value of leases and the value of in-place leases, are recorded at their relative fair values. The below-market value of leases is recorded in Other liabilities.

Above-market, below-market and in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition and (ii) management s estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market or below-market lease value is amortized as a reduction of, or increase to, rental income over the remaining non-cancelable term of each lease, plus any renewal periods with fixed rental terms that are considered to be below-market.

The total amount of other intangible assets allocated to in-place lease values is based on management s evaluation of the specific characteristics of each lease and the Company s overall relationship with each tenant. Factors considered in the allocation of these values include, but are not limited to, the nature of the existing relationship with the tenant, the tenant s credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management will also consider information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management s assessment of specific market conditions. Management will estimate costs required to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of a property. Independent appraisals and/or management s estimates will be used to determine these values.

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is amortized to expense over the initial terms of the leases; however, no amortization period for intangible assets will exceed the remaining depreciable life of the building.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs, in-place values and tenant relationship values, will be charged as an expense.

Long-Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of its real estate properties may be impaired. A property s value is impaired only if management s estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property (taking into account the anticipated holding period of the asset) is less than the carrying value of the property. Such estimate of cash flows considers factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property, and reflected as an adjustment to the basis of the property.

When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management s opinion, the net sales price of the assets that have been identified for sale is less than the net book value of the assets, a valuation allowance is established. For investments accounted for under the equity method, a loss is recognized if the loss in value of the investment is other than temporary.

Employee Loans

Prior to 2001, the Company had made loans to officers and employees primarily for the purpose of purchasing the Company s common stock. These loans are demand and term notes bearing interest at rates ranging from 5.0% to 6.0%. Interest on such loans is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders equity. At June 30, 2006 and December 31, 2005, the Company had aggregate loans to employees of approximately $0.5 million and $0.6 million, respectively.

Deferred Leasing and Loan Origination Costs

Costs incurred in obtaining tenant leases (including internal leasing costs) are amortized using the straight-line method over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Costs incurred in obtaining long-term financing are amortized and charged to interest expense over the terms of the related debt agreements, which approximates the effective interest method.

Internal Leasing Costs

The Company capitalizes internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* Please refer to the following table for additional information regarding the capitalization of internal leasing costs (dollars in thousands).

Balance at December 31, 2005	$	12,512
Costs capitalized		3,328
Amortization / write-offs		(1,657)
Balance at June 30, 2006	$	14,183

Investments in /Advances to Unconsolidated Ventures

The Company has direct equity investments in several joint venture projects. The Company accounts for these investments in unconsolidated ventures using the equity method of accounting, as the Company exercises significant influence over, but does not control, and is not the primary beneficiary of, these entities. These investments are initially recorded at cost, as Investments in/advances to unconsolidated ventures , and subsequently adjusted for equity in earnings and cash contributions and distributions. Intercompany fees and gains on property transactions are eliminated to the extent of the Company s ownership interest.

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

Intangible Assets

The Company s intangible assets, other than those acquired in business combinations, include property management rights and an asset management fee stream. These assets were initially measured based on their fair values and are being amortized on a straight-line basis over a period of 20 to 40 years. These assets are stated at cost, net of accumulated amortization.

Derivative/Financial Instruments

The Company accounts for derivative and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These accounting standards require the Company to measure derivatives, including certain derivatives embedded in other contracts, at fair value and to recognize them in the Consolidated Balance Sheets as assets or liabilities, depending on the Company s rights or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging instruments, and ineffective portions of hedges, are recognized in earnings in the current period.

Asset Retirement Obligations

The Company accounts for its conditional asset retirement obligations in accordance with FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which the Company adopted as of December 31, 2005. A conditional asset retirement obligation refers to a legal obligation (pursuant to existing law or contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditioned upon the occurrence of a future event that may or may not be within the control of the Company. The Company s conditional asset retirement obligations arise primarily from legal requirements to decontaminate buildings at the time the buildings are sold or otherwise disposed of. In accordance with FIN 47, the Company has reasonably estimated the fair value of its conditional asset retirement obligations and has recognized a liability for conditional asset retirement obligations of approximately $1.0 million as of June 30, 2006. During the three and six months ended June 30, 2006 the Company recorded approximately $5,800 and $0.3 million, respectively, of accretion associated with its asset retirement obligation liability.

Self-Insured Health Plan

Beginning in May 2003, the Company implemented a self-insured health plan for all of its employees. In order to limit its exposure, the Company has purchased stop-loss insurance, which will reimburse the Company for individual claims in excess of $0.1 million annually, or aggregate claims in excess of $1.0 million annually. Self-insurance losses are accrued based on the Company s estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions adhered to in the insurance industry. The liability for self-insured losses is included in accrued expenses and was approximately $1.0 million and $0.7 million at June 30, 2006 and December 31, 2005, respectively.

General Liability Insurance

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

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as deferred rent receivable on the accompanying Consolidated Balance Sheets. Certain leases provide for percentage rents based upon the level of sales achieved by the lessee. These percentage rents are recorded once the required sales levels are achieved. The leases also typically provide for tenant reimbursement of common area maintenance and other operating expenses. Rental revenue also includes lease termination fees. Lease termination fees were approximately $0.5 million and $1.0 million for the three months ended June 30, 2006 and 2005, respectively, and approximately $5.9 million and $2.5 million for the six months ended June 30, 2006 and 2005, respectively.

Income from Discontinued Operations

Income from discontinued operations is computed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of* Long-*Lived Assets* (SFAS No. 144). SFAS No. 144 requires, among other things, that the primary assets and liabilities and the results of operations of the Company s real property that has been sold, or otherwise qualifies as held for sale (as defined by SFAS No. 144), be classified as discontinued operations and segregated in the Company s Consolidated Statements of Income and Comprehensive Income and Consolidated Balance Sheets. Properties classified as real estate held for sale generally represent properties that are under contract for sale and are expected to close within the next twelve months.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. In order to maintain its qualification as a REIT, the Company is required to, among other things, distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to the portion of its income that meets certain criteria and is distributed annually to the stockholders. Accordingly, no provision for federal income taxes is included in the accompanying consolidated financial statements. The Company intends to continue to operate in a manner that allows it to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in general and administrative expenses in the Company s Consolidated Statements of Income and Comprehensive Income.

The Company may elect to treat one or more of its subsidiaries as taxable REIT subsidiaries (TRS). In general, TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). TRS are subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRS. At June 30, 2006, the Company s TRS had a tax net operating loss carryforward of approximately $15.6 million, expiring from 2015 to 2020. In addition, the Company s TRS had other net tax assets, most significantly relating to an asset impairment recognized in fiscal 2003, for financial accounting purposes that will not be recognized for tax purposes until the property is sold. The Company s TRS have ascribed a full valuation allowance to their net deferred tax assets.

Segment Information

The principal business of the Company is the ownership and management of community and neighborhood shopping centers. The Company does not distinguish or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single reportable segment for disclosure purposes in accordance with GAAP. Further, all of the Company s operations and assets are within the United States and no tenant comprises more than 5% of revenue.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant assumptions and estimates relate to impairments of real estate, recovery of mortgage notes and trade accounts receivable and depreciable lives.

Reclassifications

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

Recently Issued Accounting Standards

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

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

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

Note 3: Acquisitions and Dispositions

<u>Acquisitions</u>

During the six months ended June 30, 2006, the Company acquired two buildings, one immediately adjacent to Tarpon Mall, a shopping center owned by the Company, and the other immediately adjacent to Hazel Path, a shopping center owned by the Company. Please refer to the following table for additional details (dollars in millions).

					Purchase Price Components		
Property Name	**Location**	**Acquisition Date**	**Gross Leasable Area**	**Purchase Price**	**ERP Units**	**Assumed Debt**	**Cash**
Building at Tarpon Mall	Tarpon Springs, FL	01/27/06	6,580	$ 2.3			$ 2.3
Building at Hazel Path	Hendersonville, TN	02/21/06	94,977	$ 4.8			$ 4.8
	Total			$ 7.1			$ 7.1

Additionally, on June 20, 2006, NewSem Tyrone Gardens LLC, a joint venture with The Sembler Company in which the Company holds a 90% interest, acquired Tyrone Gardens, a 209,337 square foot shopping center located in St. Petersburg, Florida, for approximately $19.0 million, including approximately $9.0 million of assumed mortgage indebtedness. In accordance with the provisions of FIN 46, this property is included as a consolidated entity in the Company s Consolidated Financial Statements and throughout the remainder of this document.

In the 2005 fiscal year, the Company acquired eight shopping centers (Brunswick Town Center, Hillcrest Shopping Center, West Ridge Shopping Center, Market Plaza, Surrey Square Mall, Fashion Place Shopping Center, Western Hills Plaza and Southland Shopping Center), a vacant building with 2.5 acres of land immediately adjacent to Midway Crossing (a shopping center owned by the Company), a vacant building immediately adjacent to Victory Square (a shopping center owned by the Company), six land parcels, the remaining 90% interest in Marketplace at Wycliffe, a shopping center in which the Company owned the other 10% interest, and the remaining 90% interest in Mableton Walk, a shopping center in which the Company owned the other 10% interest. Please refer to the

following table for additional details (dollars in millions).

						Purchase Price Components		
Property Name	**Location**	**Acquisition Date**	**Gross Leasable Area**		**Purchase Price**	**ERP Units**	**Assumed Debt**	**Cash**
Building at Midway Crossing	Elyria, OH	01/13/05	20,338	(1)	$ 1.1			$ 1.1
Brunswick Town Center	Brunswick, OH	01/21/05	122,989		$ 16.4			$ 16.4
Hillcrest Shopping Center	Spartanburg, SC	02/16/05	343,914		$ 35.5	$ 14.5	$ 16.8	$ 4.2
West Ridge Shopping Center	Westland, MI	03/17/05	163,131		$ 16.6		$ 11.0	$ 5.6
Marketplace at Wycliffe (2) (3)	Lake Worth, FL	06/01/05	133,520		$ 35.7			$ 35.7
Mableton Walk (2)	Mableton, GA	06/01/05	105,742					
Market Plaza	Plano, TX	07/13/05	161,453		$			