ENTERTAINMENT PROPERTIES TRUST
Form 10-Q
July 27, 2012

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

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

For the quarterly period ended June 30, 2012
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: 001-13561

ENTERTAINMENT PROPERTIES TRUST
(Exact name of registrant as specified in its charter)

Maryland	43-1790877
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
909 Walnut Street, Suite 200 Kansas City, Missouri	64106
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (816) 472-1700

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 ý 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 ý 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.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ¨ No ý

At July 26, 2012, there were 46,838,465 common shares outstanding.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

With the exception of historical information, certain statements contained or incorporated by reference herein may contain forward-looking statements within the meaning of 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”), such as those pertaining to our acquisition or disposition of properties, our capital resources, future expenditures for development projects, and our results of operations. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of actual events. There is no assurance the events or circumstances reflected in the forward-looking statements will occur. You can identify forward-looking statements by use of words such as “will be,” “intend,” “continue,” “believe,” “may,” “expect,” “hope,” “anticipate,” “goal,” “forecast,” “exp “anticipates,” “estimates,” “offers,” “plans” “would,” or other similar expressions or other comparable terms or discussions of strategy, plans or intentions in this Form 10-Q. In addition, references to our budgeted amounts and guidance 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;
- Continuing volatility in the financial markets;
- Adverse changes in our credit ratings;
- An increase in interest rates;
- The duration or outcome of litigation, or other factors outside of the litigation, relating to our significant investment in a planned casino and resort development which may cause the development to be indefinitely delayed or cancelled;
- 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 borrower's bankruptcy or default;
- The obsolescence of older multiplex theatres owned by some of our tenants or by any overbuilding of megaplex theatres in their markets;
- Our ability to renew maturing leases with theatre tenants on terms comparable to prior leases and/or our ability to lease any re-claimed space from some of our larger theatres at economically favorable terms;
- Risks of operating in the entertainment industry;
- Our ability to compete effectively;
- A single tenant represents a substantial portion of our lease revenue;
- A single tenant leases or is the mortgagor of all our investments related to metropolitan ski areas and a single tenant leases a significant number of our public charter school properties;
- The ability of our public charter school tenants to comply with their charters and continue to receive funding from state or other regulatory authorities, the approval by applicable governing authorities of substitute operators to assume control of any failed public charter schools and our ability to negotiate the terms of new leases with such substitute tenants on acceptable terms, and our ability to complete collateral substitutions as applicable;
- Risks associated with use of leverage to acquire properties;
- Financing arrangements that require lump-sum payments;
- Our ability to raise capital;
- 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 real estate investment trust for U.S federal income tax purposes ("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, operating or financing properties for which the tenant's, mortgagor's or our operations may be impacted by weather conditions and climate change;
- Risks associated with the ownership of vineyards and wineries;
- Risks associated with security breaches and other disruptions;
- Our ability to pay distributions in cash or at current rates;
- Fluctuations in interest rates;
- Fluctuations in the market prices for our shares;
- Certain limits on changes 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;
- 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 this Form 10-Q and Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission ("SEC") on February 24, 2012.

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 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 Form 10-Q.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
ENTERTAINMENT PROPERTIES TRUST
Consolidated Balance Sheets
(Dollars in thousands except share data)

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Rental properties, net of accumulated depreciation of $355,945 and $335,116 at June 30, 2012 and December 31, 2011, respectively	$1,833,893	$1,819,176
Rental properties held for sale, net	3,895	4,696
Land held for development	188,874	184,457
Property under development	40,141	22,761
Mortgage notes and related accrued interest receivable, net	403,619	325,097
Investment in a direct financing lease, net	236,157	233,619
Investment in joint ventures	10,577	25,053
Cash and cash equivalents	12,739	14,625
Restricted cash	19,165	19,312
Intangible assets, net	3,871	4,485
Deferred financing costs, net	18,452	18,527
Accounts receivable, net	33,138	35,005
Notes and related accrued interest receivable, net	5,007	5,015
Other assets	24,139	22,167
Total assets	$2,833,667	$2,733,995
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	$37,485	$36,036
Common dividends payable	35,128	32,709
Preferred dividends payable	6,002	6,002
Unearned rents and interest	11,982	6,850
Long-term debt	1,270,560	1,154,295
Total liabilities	1,361,157	1,235,892
Equity:		
Common Shares, $.01 par value; 75,000,000 shares authorized; and 48,279,507 and 48,062,593 shares issued at June 30, 2012 and December 31, 2011, respectively	482	480
Preferred Shares, $.01 par value; 25,000,000 shares authorized:		
5,400,000 Series C convertible shares issued at June 30, 2012 and December 31, 2011; liquidation preference of $135,000,000	54	54
4,600,000 Series D shares issued at June 30, 2012 and December 31, 2011; liquidation preference of $115,000,000	46	46
3,450,000 Series E convertible shares issued at June 30, 2012 and December 31, 2011; liquidation preference of $86,250,000	35	35
Additional paid-in-capital	1,752,784	1,719,066
Treasury shares at cost: 1,442,159 and 1,335,879 common shares at June 30, 2012 and December 31, 2011, respectively	(49,539)	(44,834)
Accumulated other comprehensive income	20,680	23,463
Distributions in excess of net income	(252,338)	(228,261)
Entertainment Properties Trust shareholders’ equity	1,472,204	1,470,049
Noncontrolling interests	306	28,054

Equity	$1,472,510	$1,498,103
Total liabilities and equity	$2,833,667	$2,733,995

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Rental revenue	$59,211	$56,024	$117,494	$111,406
Tenant reimbursements	4,365	4,515	9,186	9,176
Other income	107	131	133	155
Mortgage and other financing income	15,256	13,747	29,976	27,262
Total revenue	78,939	74,417	156,789	147,999
Property operating expense	5,245	6,579	11,419	12,769
Other expense	431	677	916	1,157
General and administrative expense	5,821	5,105	12,288	10,573
Costs associated with loan refinancing or payoff	—	—	—	5,339
Interest expense, net	18,459	17,287	36,600	36,031
Transaction costs	31	76	189	1,349
Impairment charges	—	24,298	8,195	24,298
Depreciation and amortization	12,791	11,782	25,073	23,455
Income before equity in income from joint ventures and discontinued operations	36,161	8,613	62,109	33,028
Equity in income from joint ventures	278	781	324	1,555
Income from continuing operations	$36,439	$9,394	$62,433	$34,583
Discontinued operations:				
Income (loss) from discontinued operations	(59)	566	(297)	1,666
Impairment charges	—	(9,958)	(4,648)	(11,758)
Costs associated with loan refinancing or payoff	—	—	—	(1,049)
Gain on sale or acquisition of real estate	438	—	720	18,293
Net income	36,818	2	58,208	41,735
Add: Net income attributable to noncontrolling interests	(19)	—	(37)	(2)
Net income attributable to Entertainment Properties Trust	36,799	2	58,171	41,733
Preferred dividend requirements	(6,002)	(7,551)	(12,003)	(15,103)
Net income (loss) available to common shareholders of Entertainment Properties Trust	$30,797	$(7,549)	$46,168	$26,630
Per share data attributable to Entertainment Properties Trust common shareholders:				
Basic earnings per share data:				
Income from continuing operations	$0.65	$0.04	$1.08	$0.42
Income (loss) from discontinued operations	0.01	(0.20)	(0.09)	0.15
Net income (loss) available to common shareholders	$0.66	$(0.16)	$0.99	$0.57
Diluted earnings per share data:				
Income from continuing operations	$0.64	$0.04	$1.07	$0.42
Income (loss) from discontinued operations	0.01	(0.20)	(0.09)	0.15
Net income (loss) available to common shareholders	$0.65	$(0.16)	$0.98	$0.57
Shares used for computation (in thousands):				
Basic	46,826	46,648	46,751	46,576
Diluted	47,068	46,956	47,006	46,880

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$36,818	$2	$58,208	$41,735
Other comprehensive income (loss):				
Foreign currency translation adjustment	(2,910)	828	(124)	9,558
Change in unrealized loss on derivatives	(171)	(864)	(2,659)	(3,846)
Comprehensive income (loss)	33,737	(34)	55,425	47,447
Comprehensive income attributable to the noncontrolling interests	(19)	—	(37)	(2)
Comprehensive income (loss) attributable to Entertainment Properties Trust	$33,718	$(34)	$55,388	$47,445

See accompanying notes to consolidated financial statements.

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ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Changes in Equity
Six Months Ended June 30, 2012
(Unaudited)
(Dollars in thousands)

	Entertainment Properties Trust Shareholders' Equity									
	Common Stock		Preferred Stock							
	Shares	Par	Shares	Par	Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Distributions in excess of net income	Noncontrolling Interests	Total
Balance at December 31, 2011	48,062,593	$480	13,450,000	$135	$1,719,066	$(44,834)	$23,463	$(228,261)	$28,054	$1,498,103
Restricted share units issued to Trustees	10,925	—	—	—	488	—	—	—	—	488
Issuance of nonvested shares, including nonvested shares issued for the payment of bonuses	148,095	1	—	—	1,486	—	—	—	—	1,487
Cancellation of 185 employee nonvested shares	—	—	—	—	5	(5)	—	—	—	—
Amortization of nonvested shares	—	—	—	—	2,266	—	—	—	—	2,266
Share option expense	—	—	—	—	481	—	—	—	—	481
Foreign currency translation adjustment	—	—	—	—	—	—	(124)	—	—	(124)
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	(2,659)	—	—	(2,659)
Net income	—	—	—	—	—	—	—	58,171	37	58,208
Purchase of 73,411	—	—	—	—	—	(3,209)	—	—	—	(3,209)

common shares for treasury										
Issuances of common shares	4,464	—	—	—	197	—	—	—	—	197
Stock option exercises, net	53,430	1	—	—	1,010	(1,491)	—	—	—	(480)
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(82,248)	—	(82,248)
Forfeiture of noncontrolling interest	—	—	—	—	27,785	—	—	—	(27,785)	—
Balance at June 30, 2012	48,279,507	$482	13,450,000	$135	$1,752,784	$(49,539)	$20,680	$(252,338)	$306	$1,472,510

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2012	2011
Operating activities:		
Net income	$58,208	$41,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash impairment charges	8,195	24,298
Loss (income) from discontinued operations	4,225	(7,152)
Costs associated with loan refinancing or payoff (non-cash portion)	—	1,759
Equity in income from joint ventures	(324)	(1,555)
Distributions from joint ventures	638	1,304
Depreciation and amortization	25,073	23,455
Amortization of deferred financing costs	2,177	1,787
Share-based compensation expense to management and trustees	2,998	2,841
Decrease in restricted cash	1,851	1,649
Increase in mortgage notes accrued interest receivable	(37)	—
Decrease in accounts receivable, net	494	1,015
Decrease in notes receivable and accrued interest receivable	8	48
Increase in direct financing lease receivable	(2,538)	(2,553)
Increase in other assets	(1,051)	(1,874)
Increase (decrease) in accounts payable and accrued liabilities	(1,156)	2,927
Increase in unearned rents and interest	2,511	138
Net operating cash provided by continuing operations	101,272	89,822
Net operating cash provided by discontinued operations	2,168	2,508
Net cash provided by operating activities	103,440	92,330
Investing activities:		
Acquisition of rental properties and other assets	(40,424)	(38,924)
Investment in unconsolidated joint ventures	(661)	(2,784)
Investment in mortgage notes receivable	(64,561)	(6,036)
Investment in a direct financing lease, net	—	(2,113)
Additions to properties under development	(43,597)	(18,437)
Net cash used by investing activities of continuing operations	(149,243)	(68,294)
Net cash used by other investing activities of discontinued operations	—	(58)
Net proceeds from sale of real estate from discontinued operations	12,969	212,396
Net cash provided (used) by investing activities	(136,274)	144,044
Financing activities:		
Proceeds from long-term debt facilities	396,000	195,000
Principal payments on long-term debt	(279,663)	(345,352)
Deferred financing fees paid	(2,101)	(934)
Net proceeds from issuance of common shares	133	145
Impact of stock option exercises, net	(480)	(499)
Purchase of common shares for treasury	(3,209)	(3,070)
Dividends paid to shareholders	(79,764)	(77,951)
Net cash provided (used) by financing activities	30,916	(232,661)
Effect of exchange rate changes on cash	32	251
Net increase (decrease) in cash and cash equivalents	(1,886)	3,964

Cash and cash equivalents at beginning of the period	14,625	11,776
Cash and cash equivalents at end of the period	$12,739	$15,740

Supplemental information continued on next page.

ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)
Continued from previous page.

	Six Months Ended June 30,	
	2012	2011
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	$22,702	$4,552
Acquisiton of real estate in exchange for assumption of debt at fair value	$—	$4,109
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	$7,181	$6,785
Conversion of equity to mortgage note receivable related to Atlantic-EPR I	$14,852	$—
Adjustment of noncontrolling interest to additional paid in capital	27,785	—
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$34,487	$36,025
Cash paid (received) during the year for income taxes	$(715)	$632

See accompanying notes to consolidated financial statements.

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 or retail properties), public charter schools, metropolitan ski areas and other destination recreational and specialty properties. The Company’s properties are located in the United States and Canada.

2. Summary of 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 six month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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 Topic on Consolidation requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This topic requires an ongoing reassessment of and eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary and requires enhanced disclosures on variable interest entities. 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 shareholders' equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for equity, noncontrolling interests and total equity. The Company does not have any redeemable noncontrolling interests under the scope of the Distinguishing Liabilities from Equity guidance of the FASB ASC.

The consolidated balance sheet as of December 31, 2011 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, 2011 filed with the Securities and Exchange Commission (SEC) on February 24, 2012.

Operating Segments
For financial reporting purposes, the Company groups its investments into four reportable operating segments: entertainment, education, recreation and other. See Note 18 for financial information related to these operating segments.

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 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.

The Company evaluates the held-for-sale classification of its real estate as of the end of each quarter. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value less costs to sell. Assets are generally classified as held for sale once management has initiated an active program to market them for sale and has received a firm purchase commitment that is expected to close within one year. The results of operations of these real estate properties are reflected as discontinued operations in all periods reported. On occasion, the Company will receive unsolicited offers from third parties to buy individual Company properties. Under these circumstances, the Company will classify the properties as held for sale when a sales contract is executed with no contingencies and the prospective buyer has funds at risk to ensure performance.

Allowance for Doubtful Accounts
The Company makes quarterly estimates of the collectability 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. When evaluating customer credit worthiness, management reviews the periodic financial statements for significant tenants and specifically evaluates the strength and material changes in net operating income, coverage ratios, leverage and other factors to assess the tenant's credit quality. 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.

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. 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 as well as participating interest for those mortgage agreements that contain similar such clauses are recognized at the time when specific triggering events occur as provided by the lease or mortgage agreements. Rental revenue included percentage rents of $627 thousand and $523 thousand for the six months ended June 30, 2012 and 2011 , 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. Termination fees of $99 thousand were recognized during the six months ended June

30, 2012. No termination fees were recognized during the six months ended June 30, 2011.

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 Company evaluates on an annual basis (or more frequently if necessary) the collectability 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.

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 collectability 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. An insignificant delay or shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. When a loan is considered to be impaired, the amount of loss, if any, 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 Company’s interest in the underlying collateral, less costs to sell, if the loan is collateral dependent. 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 if and when the impaired loan becomes contractually current and performance is demonstrated to be resumed.

Concentrations of Risk
American Multi-Cinema, Inc. (AMC) was the lessee of a substantial portion (35%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at June 30, 2012 as a result of a series of sale leaseback transactions pertaining to a number of AMC megaplex theatres. Subsequent to June 30, 2012, the leases at four of the Company's megaplex theatres located in Canada were assumed by third-party operators and are no longer leased to AMC. This brings the portion of megaplex theatres leased to AMC to 31%. A substantial portion of the Company’s total revenues (approximately $50.1 million or 32% and $52.8 million or 36%, for the six months ended June 30, 2012 and 2011, respectively) result from the revenue by AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC’s obligations under the leases. AMCE had total assets of $3.6 billion and $3.7 billion, total liabilities of $3.5 billion and $3.4 billion and total stockholders' equity of $154 million and $360 million at March 29, 2012 and March 31, 2011, respectively. AMCE had a net loss of $82.0 million for the fifty-two weeks ended March 29, 2012, a net loss of $122.9 million for the fifty-two weeks ended March 31, 2011 and net earnings of $69.8 million for the fifty-two weeks ended April 1, 2010. AMCE has publicly held debt and the foregoing financial information was reported in its consolidated financial information which is publicly available. On May 20, 2012, AMC Entertainment Holdings, Inc., the parent of AMCE (AMCEH), announced that it entered into an agreement with Dalian Wanda Group Co. Ltd. (Wanda), pursuant to which Wanda would acquire AMCEH in a transaction valued at $2.6 billion. The sale of AMCEH to Wanda is subject to completion. If the transaction is completed, AMCE will become a wholly-owned subsidiary of Wanda.

For the six months ended June 30, 2012 and 2011, approximately $21.4 million or 14%, and $21.5 million or 15%, respectively, of total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada. The Company's wholly owned subsidiaries that hold the four Canadian entertainment retail centers and third-party debt represent approximately $144.0 million or 10% and $144.6 million or 10% of the Company's net assets as of June 30, 2012 and December 31, 2011, respectively.

Share-Based Compensation

Share-based compensation to employees of the Company is determined pursuant to the Company's Annual Incentive

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

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 $3.0 million and $2.8 million for the six months ended June 30, 2012 and 2011, 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. 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 six months ended June 30, 2012 and 2011 was $481 thousand and $377 thousand, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates: risk-free interest rate of 1.1% to 1.4% and 2.5% to 3.1% for the six months ended June 30, 2012 and 2011, respectively, dividend yield of 6.3% to 6.7% for the six months ended June 30, 2012 and 6.4% for the six months ended June 30, 2011, volatility factors in the expected market price of the Company’s common shares of 51.3% to 51.4% for the six months ended June 30, 2012 and 39.8% for the six months ended June 30, 2011, 0.25% expected forfeiture rate for the six months ended June 30, 2012, no expected forfeitures for the six months ended June 30, 2011, an expected life of approximately six years for the six months ended June 30, 2012 and an expected life of approximately eight years for the six months ended June 30, 2011. The Company uses historical data to estimate the expected life of the option and the risk-free interest rate 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 $2.3 million and $2.1 million for the six months ended June 30, 2012 and 2011, respectively.

Restricted Share Units Issued to Non-Employee Trustees
The Company issues 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 one year from the grant date to upon termination of service. This expense is 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 $250 thousand, and $241 thousand for the six months ended June 30, 2012 and 2011, respectively.

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.

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 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.

The Company has made an accounting policy election under FASB ASU 2011-04 (Amendments to ASC 820) to use the exception in ASC 820-10-35-18D (commonly referred to as the “portfolio exception”) with respect to measuring counterparty credit risk for derivative instruments, consistent with the guidance in ASC 820-10-35-18G. The Company further documents that it meets the criteria for the exception in ASC 820-10-35-18E.

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

3. Rental Properties
The following table summarizes the carrying amounts of rental properties as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Buildings and improvements	$1,654,885	$1,602,676
Furniture, fixtures & equipment	43,011	54,737
Land	491,942	496,879
	2,189,838	2,154,292
Accumulated depreciation	(355,945)	(335,116)
Total	$1,833,893	$1,819,176

Depreciation expense on rental properties was $23.6 million and $22.0 million for the six months ended June 30, 2012 and 2011, respectively.

4. Impairment Charges

During the three months ended March 31, 2012 or shortly thereafter, the Company entered into non-binding agreements to sell a portion of one of its vineyard properties as well as another winery, and began negotiations for the sale of three other vineyard and winery properties. As a result, in the first quarter of 2012, the Company revised its estimated undiscounted cash flows associated with each of these asset groups, considering the shorter expected holding periods, and determined that those estimated cash flows were not sufficient to recover the carrying values of these properties. The Company determined the estimated fair value of these assets (included in the Other segment) to be $47.1 million using Level 3 inputs and recorded impairment charges totaling $12.8 million during the first quarter of 2012. Management estimated the fair values of these properties taking into account the various purchase offers, pending purchase agreements, input from an outside broker and previous appraisals. At June 30, 2012, one of the vineyard and winery properties with a carrying value of $3.9 million has been classified as held for sale in the accompanying consolidated balance sheet, and the related results of operations, including the impairment of $0.8 million, has been classified within discontinued operations. Additionally, on May 25, 2012, the Company sold 197 plantable acres at its Buena Vista vineyard in Sonoma, California, and the related results of operations, including the impairment of $3.8 million, has been classified within discontinued operations. See Note 15 for further details.

5. Investments and Dispositions

On January 1, 2012, the Company converted $14.9 million of equity in its unconsolidated joint venture, Atlantic-EPR I, to a secured first mortgage loan of the same amount with Cantera 30 Theatre, L.P, the entity that holds direct title to the underlying theatre investment located in Warrenville, Illinois. The note is secured by the theatre, bears interest at 9.50%, requires monthly interest payments and matures on January 31, 2018.

On February 23, 2012, the Company acquired two TopGolf golf and dining facilities for a purchase price of $20.0 million pursuant to a sale-leaseback transaction. The facilities are located in Allen and Dallas, Texas and are leased pursuant to a long-term triple-net master lease.

On February 28, 2012, the Company acquired two dining and entertainment facilities from Latitude Global, Inc. The facilities are located in Jacksonville, Florida and Indianapolis, Indiana and were acquired for a purchase price of $13.7 million. As a part of this transaction, the Company has agreed to finance an additional $7.3 million in construction costs for these two facilities of which $6.0 million has been funded through June 30, 2012.

On February 29, 2012, the Company entered into a secured first mortgage loan agreement for $19.3 million with Basis School, Inc. The loan is secured by a six story building and the underlying land with approximately 40,000 square feet located in Washington D.C., which is expected to be developed into a public charter school. The note bears interest beginning at 9.0% with increases of 0.5% every four years, requires monthly interest payments and matures on September 1, 2032. The carrying value of the mortgage note at June 30, 2012 was $15.7 million.

On May 25, 2012, the Company completed the sale of 197 plantable acres of its Buena Vista vineyard in Sonoma County, California for $13.0 million and a gain on sale of $0.4 million was recognized during the three months ended June 30, 2012. As further discussed in Note 15, the results of operations of the property have been classified within discontinued operations.

On June 14, 2012, the Company acquired one theatre property from Frank Theatres for a purchase price of $6.5 million pursuant to a sale-leaseback transaction. The 10-screen theatre is located in Southern Pines, North Carolina and is leased to Frank Theatres pursuant to a long-term triple-net lease.

On June 28, 2012, the Company entered into a secured first mortgage loan agreement for $36.0 million with Montparnasse 56 USA. The loan is secured by the observation deck of the John Hancock building in Chicago, Illinois. This note bears interest at 10.65%, requires monthly interest payments and matures on June 28, 2032. The carrying value of this mortgage note receivable at June 30, 2012 was $36.0 million, including related accrued interest receivable of $32 thousand.

During the six months ended June 30, 2012, the Company entered into development agreements to develop seven entertainment properties including six theatre properties. The Company has agreed to finance $64.4 million in development costs for these properties, of which $5.2 million has been funded through June 30, 2012.

Additionally during the six months ended June 30, 2012, the Company purchased four public charter school properties for a total initial investment of $4.1 million. Two of the properties are located in Salt Lake City and Hurricane, Utah and are leased to HighMark, and the other two properties are located in Buckeye and Queen Creek, Arizona and are leased to Portfolio Charter Investments. As a part of these transactions, the Company has agreed to finance an additional $30.1 million in development costs for these properties, of which $11.9 million was funded through June 30, 2012.

During the six months ended June 30, 2012, the Company advanced $8.9 million under its secured mortgage loan agreement with Peak Resorts, Inc. (Peak) to provide for additional improvements made to Mount Snow. The carrying value of this mortgage note receivable at June 30, 2012 was $42.6 million. The maturity date for this mortgage loan agreement was extended to April 1, 2013 in accordance with a provision in the original loan agreement. Additionally, the Company advanced $2.4 million under another secured mortgage loan agreement with Peak to provide for additional improvements made to a ski resort in Bennington, New Hampshire.

6. Accounts Receivable, Net

The following table summarizes the carrying amounts of accounts receivable, net as of June 30, 2012 and December 31, 2011(in thousands):

	June 30, 2012	December 31, 2011
Receivable from tenants	$8,296	$6,874
Receivable from non-tenants	430	1,265
Receivable from Canada Revenue Agency	389	1,099
Straight-line rent receivable	26,959	26,499
Deferred rent receivable [1]	—	4,420
Allowance for doubtful accounts	(2,936)	(5,152)
Total	$33,138	$35,005

(1) At December 31, 2011, rent deferral payments of $3.4 million were guaranteed by a private equity firm and $1.0 million were unguaranteed but fully reserved. In June 2012, in conjunction with the tenant's sale of its operations, the guaranteed rent deferral payments of $3.4 million were paid in full, and unguaranteed rent deferral payments of $0.4 million were received and the remaining unguaranteed rent deferral payments of $0.6 million were written off to the previously established allowance for doubtful accounts.

7. Investment in a Direct Financing Lease

The Company’s investment in a direct financing lease relates to the Company’s master lease of 27 public charter school properties with affiliates of Imagine Schools, Inc. Investment in a direct financing lease, net represents estimated unguaranteed residual values of leased assets and net unpaid rentals, less related deferred income. The following table summarizes the carrying amounts of investment in a direct financing lease, net as of June 30, 2012 and December 31, 2011(in thousands):

	June 30, 2012	December 31, 2011
Total minimum lease payments receivable	$672,087	$683,653
Estimated unguaranteed residual value of leased assets	215,987	215,987
Less deferred income [1]	(651,917)	(666,021)
Investment in a direct financing lease, net	$236,157	$233,619

(1) Deferred income is net of $1.8 million of initial direct costs at June 30, 2012 and December 31, 2011.

Additionally, the Company has determined that no allowance for losses was necessary at June 30, 2012 and December 31, 2011.

The Company’s direct financing lease has expiration dates ranging from approximately 20 to 23 years. Future minimum rentals receivable on this direct financing lease at June 30, 2012 are as follows (in thousands):

	Amount
Year:	
2012	$11,774
2013	24,041
2014	24,762
2015	25,505
2016	26,270
Thereafter	559,735
Total	$672,087

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8. Unconsolidated Real Estate Joint Ventures

At June 30, 2012, the Company had a 39.1% and 29.2% 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.

As further discussed in Note 5, on January 1, 2012, the Company converted a $14.9 million equity interest in Atlantic-EPR I to a secured first mortgage loan of the same amount. Additionally, Atlantic EPR I entered into an agreement to develop a family entertainment venue at the property it owns for approximately $4.0 million which is expected to be funded through additional advances under the mortgage note. The Company recognized a loss of $28 thousand and income of $1.4 million during the six months ended June 30, 2012 and 2011, respectively, from its equity investment in the Atlantic-EPR I joint venture. The Company also received distributions from Atlantic-EPR I of $410 thousand and $1.1 million on its equity investment during the six months ended June 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR I is as follows as of and for the six months ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Rental properties, net	$25,702	$26,346
Cash	10	1,178
Long-term debt (due January 2018)	15,165	—
Partners' equity	10,683	27,634
Rental revenue	1,360	2,283
Net income (loss)	(97)	816

The Company recognized income of $213 thousand and $182 thousand from its equity investment in the Atlantic-EPR II joint venture during the six months ended June 30, 2012 and 2011, respectively. The Company also received distributions from Atlantic-EPR II of $228 thousand and $199 thousand on its equity investment during the six months ended June 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR II is as follows as of and for the six months ended June 30, 2012 and 2011(in thousands):

	2012	2011
Rental properties, net	$20,346	$20,807
Cash	131	231
Long-term debt (due September 2013)	12,028	12,413
Note payable to EPR	117	117
Partners' equity	8,059	8,140
Rental revenue	1,444	1,444
Net income	728	679

The partnership 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 Company's discretion, the cash value of those shares as defined in each of the partnership agreements. During 2011, the Company paid Atlantic cash of $2.5 million and $258 thousand in exchange for additional ownership of 11.3% (a portion of which related to 2010) and 2.0% for Atlantic-EPR I and Atlantic-EPR II, respectively. During 2012, the Company has paid Atlantic cash of $688 thousand and $443 thousand in exchange for additional ownership of 3.0% and 3.5% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of June 30, 2012 and December 31, 2011, the Company had invested $4.4 million and $4.2 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. The Company recognized income of $140 thousand and $11 thousand from its investment in these joint ventures for the six months ended June

30, 2012 and 2011, respectively.

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9. Long-Term Debt

On January 5, 2012, the Company entered into a new $240.0 million five-year unsecured term loan facility. The loan matures on January 5, 2017. The facility is priced based on a grid related to the Company's senior unsecured credit ratings, with pricing at closing of LIBOR plus 175 basis points. The Company also entered into interest rate swaps that effectively mitigate the Company's risk to variable interest rates and provide a fixed interest stream (when cash flows from the debt and interest rate swaps are combined) at 2.66% for four years. The new facility contains an “accordion” feature allowing it to be increased by up to an additional $110.0 million upon satisfaction of certain conditions. The net proceeds from this new unsecured term loan facility were primarily utilized to reduce the outstanding balance of the Company's unsecured revolving credit facility to zero at closing. At June 30, 2012, the Company had $112.0 million in debt outstanding under its $400.0 million unsecured revolving credit facility, and thus had $288.0 million of available capacity.

10. Variable Interest Entities

The Company’s variable interest in VIEs currently are in the form of equity ownership and loans provided by the Company to a VIE or other partner. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE’s executive committee, existence of unilateral kick-out rights or voting rights, and level of economic disproportionality between the Company and the other partner(s).

Consolidated VIEs
As of June 30, 2012, the Company has invested in one 50% joint venture which is a VIE. This joint venture did not have any significant assets and liabilities at June 30, 2012 and was established to explore certain investment opportunities.

Unconsolidated VIE
At June 30, 2012, the Company’s recorded investment in SVVI, a VIE that is unconsolidated, was $178.5 million. The Company’s maximum exposure to loss associated with SVVI is limited to the Company’s outstanding mortgage note and related accrued interest receivable of $178.5 million because there are no commitments to fund above this amount.

While this entity is a VIE, the Company has determined that the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance is not held by the Company. The Company does not have the power to direct these activities. Additionally, the Company does not have the right to receive benefits (beyond its interest payments per the note agreement) and does not have the obligation to absorb losses of SVVI, as its equity at risk is limited to the amount invested in the note.

11. 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.

On February 7, 2011, the Company terminated six of its interest rate swap agreements as the related loan agreements were paid in full. These interest rate swaps had a combined notional amount of $87.7 million at termination and $4.6 million was reclassified into earnings as an expense during the six months ended June 30, 2011, as the forecasted future transactions were no longer probable.

On January 5, 2012, the Company entered into three interest rate swap agreements to fix the interest rate on a $240.0 million unsecured term loan facility that closed on the same day. These agreements have a combined outstanding notional amount of $240.0 million, a termination date of January 5, 2016 and a fixed rate of 2.66%.

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 (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the six months ended June 30, 2012 and 2011, 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 six months ended June 30, 2012 and 2011.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. As of June 30, 2012, the Company estimates that during the twelve months ending June 30, 2013, $1.5 million will be reclassified from AOCI to interest expense.

Cash Flow Hedges of Foreign Exchange Risk
The Company is exposed to foreign currency exchange risk against its functional currency, the U.S. dollar, on its four Canadian properties. The Company uses cross currency swaps and foreign currency forwards to mitigate its exposure to fluctuations in the CAD to U.S. dollar exchange rate on its Canadian properties. These foreign currency derivatives should hedge a significant portion of the Company's expected CAD denominated cash flow of the 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 June 30, 2012, the Company’s cross-currency swaps had a fixed original notional value of $76.0 million CAD and $71.5 million U.S. The net effect of these swaps 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 on the properties through February 2014.

The Company entered into foreign currency forward agreements to further hedge the currency fluctuations related to the cash flows of these properties. These foreign currency forwards settle at the end of each month from February to December 2012 and lock in an exchange rate of $1.00 CAD to $1.01 CAD per U.S. dollar on approximately $500 thousand of monthly 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 AOCI 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 six months ended June 30, 2012 and 2011. As of June 30, 2012, the Company estimates that during the twelve months ending June 30, 2013, $0.3 million will be reclassified from AOCI to other expense.

Net Investment Hedges
As discussed above, the Company is exposed to fluctuations in foreign exchange rates on its four Canadian properties. As such, the Company uses currency forward agreements to hedge its exposure to changes in foreign exchange rates.

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 four of the Canadian properties, the Company entered into a forward contract with a fixed notional value of $100.0 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 AOCI from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of these four Canadian properties.

In addition, on February 3, 2011, in order to hedge the foreign currency exposure related to the proceeds from the March 29, 2011 sale of a Canadian property, the Company entered into a forward contract to sell $200.0 million CAD for $201.5 million U.S. dollars. The contract settled in conjunction with the sale of the property on March 29, 2011 and the $4.3 million loss related to the settlement was recognized with the gain on sale of the property.

For foreign currency derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in AOCI 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 six months ended June 30, 2012 and 2011. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 12 for disclosure relating to the fair value of the Company's derivative instruments. Below is a summary of the effect of derivative instruments on the consolidated statements of changes in equity and income for the three and six months ended June 30, 2012 and 2011.

Effect of Derivative Instruments on the Consolidated Statements of Changes in Equity and Income for the Three and Six Months Ended June 30, 2012 and 2011
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
Description	2012	2011	2012	2011
Interest Rate Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(2,560)	$—	$(3,926)	$(4,125)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (1)	(406)	—	(778)	(4,722)
Cross Currency Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	407	(339)	(114)	(1,479)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (2)	(108)	(286)	(275)	(499)
Currency Forward Agreements				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	1,484	(863)	344	(7,777)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (3)	16	(52)	16	(4,314)
Total				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(669)	$(1,202)	$(3,696)	$(13,381)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion)	(498)	(338)	(1,037)	(9,535)

(1) Included in "Interest expense, net" in accompanying consolidated statements of income for the three and six months ended June 30, 2012. $4.6 million included in "Costs associated with loan refinancing or payoff" and $137 thousand included in "Interest expense, net" in accompanying consolidated statements of income for the six months

ended June 30, 2011.

(2) Included in “Other expense” in the accompanying consolidated statements of income.

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(3) Included in "Other expense" in the accompanying consolidated statements of income for the three and six months ended June 30, 2012. $4.3 million included in "Gain on sale or acquisition of real estate" in the accompanying consolidated statements of income for the six months ended June 30, 2011. $52 thousand included in "Other expense" in the accompanying consolidated statements of income for the three and six months ended June 30, 2011.

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 June 30, 2012, the fair value of the Company’s derivatives in a liability position related to these agreements was $4.7 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 $4.7 million.

12. Fair Value Disclosures

The Company’s has certain financial instruments that are required to be measured under the FASB’s Fair Value Measurements and Disclosures guidance. The Company currently does not have any non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, the FASB’s Fair Value Measurements and Disclosures guidance 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). 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. 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. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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 June 30, 2012, 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 not significant to the overall valuation of its derivatives and therefore, has classified its derivatives as Level 2 within the fair value reporting hierarchy.

The table below presents the Company’s assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 aggregated by the level in the fair value hierarchy within which those measurements are classified and by derivative type.
Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012
(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 June 30, 2012
Cross Currency Swaps*	$—	$(481)	$—	$(481)
Currency Forward Agreements*	$—	$(1,067)	$—	$(1,067)
Interest Rate Swap Agreements*	$—	$(3,149)	$—	$(3,149)

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

Non-recurring fair value measurements
The table below presents the Company’s assets measured at fair value on a non-recurring basis during the six months ended June 30, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.
Assets Measured at Fair Value on a Non-Recurring Basis During the Six Months Ended June 30, 2012
(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 June 30, 2012
Rental properties held for sale, net	$—	$—	$3,895	$3,895
Rental properties, net	$—	$—	$43,233	$43,233

As further discussed in Note 4, during the six months ended June 30, 2012, the Company recorded impairment charges of $12.8 million relating to adjustments to the carrying values of certain of the Company's vineyard and winery properties. The $12.8 million is the amount that the carrying values of the assets exceed the estimated fair market values. Of this amount, $12.0 million relates to rental properties, net and $0.8 million relates to rental properties held for sale, net. Management estimated the fair values of these properties taking into account the various purchase offers, pending purchase agreements, input from an outside broker and previous appraisals. Based on these inputs, the Company determined that its valuation of these investments was classified within Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments
Management compares the carrying value and the estimated fair value of the Company’s financial instruments. The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments at June 30, 2012:

Mortgage notes receivable and related accrued interest receivable:
The fair value of the Company’s mortgage notes and related accrued interest receivable is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2012, the Company had a carrying value of $403.6 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.80%. The fixed rate mortgage notes bear interest at rates of 7.00% to 10.65%. Discounting the future cash flows for fixed rate mortgage notes receivable using an estimated weighted average market rate of 10.06%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately $378.7 million at June 30, 2012 .

Investment in a direct financing lease, net:
The fair value of the Company’s investment in a direct financing lease as of June 30, 2012 is estimated by discounting the future cash flows of the instrument using current market rates. At June 30, 2012, the Company

had an investment in a direct financing lease with a carrying value of $236.2 million and a weighted average effective interest rate of 12.02%. The investment in direct financing lease bears interest at effective interest rates of 11.93% to 12.38%. The carrying value of the investment in a direct financing lease approximates the fair market value at June 30, 2012.

Cash and cash equivalents, restricted cash:
Due to the highly liquid nature of the Company's short term investments, the carrying values of its cash and cash equivalents and restricted cash approximate the fair market values at June 30, 2012.

Accounts receivable, net:
The carrying values of accounts receivable approximate the fair market value at June 30, 2012.

Notes and related accrued interest receivable, net:
The fair value of the Company’s notes and related accrued interest receivable as of June 30, 2012 is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2012, the Company had a carrying value of $5.0 million in fixed rate notes receivable outstanding, including related accrued interest and net of loan loss reserve, with a weighted average interest rate of approximately 8.45%. The fixed rate notes bear interest at rates of 6.00% to 15.00%. Discounting the future cash flows for fixed rate notes receivable using an estimated weighted average market rate of 9.40%, management estimates the fair value of the fixed rate notes receivable to be approximately $4.9 million at June 30, 2012.

Derivative instruments:
Derivative instruments are carried at their fair market value.

Debt instruments:
The fair value of the Company's debt as of June 30, 2012 is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2012, the Company had a carrying value of $362.6 million in variable rate debt outstanding with a weighted average interest rate of approximately 1.89%. The carrying value of the variable rate debt outstanding approximates the fair market value at June 30, 2012. As described in Note 11, $240.0 million of variable rate debt outstanding at June 30, 2012 under our unsecured term loan facility has been effectively converted to a fixed rate through January 5, 2016 by interest rate swap agreements.

At June 30, 2012, the Company had a carrying value of $907.9 million in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 6.56%. Discounting the future cash flows for fixed rate debt using an estimated weighted average market rate of 4.64%, management estimates the fair value of the fixed rate debt to be approximately $961.6 million at June 30, 2012.

Accounts payable and accrued liabilities:
The carrying value of accounts payable and accrued liabilities approximates fair value at June 30, 2012 due to the short term maturities of these amounts.

Common and preferred dividends payable:
The carrying values of common and preferred dividends payable approximate fair value at June 30, 2012 due to the short term maturities of these amounts.

13. Earnings Per Share

The following table summarizes the Company's computation of basic and diluted earnings per share (EPS) for the three months ended June 30, 2012 and 2011 (amounts in thousands except per share information):

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$36,439			$62,433		
Less: preferred dividend requirements	(6,002)			(12,003)		
Noncontrolling interest adjustments	(19)			(37)		
Income from continuing operations available to common shareholders	$30,418	46,826	$0.65	$50,393	46,751	$1.08
Income (loss) from discontinued operations available to common shareholders	$379	46,826	$0.01	$(4,225)	46,751	$(0.09)
Net income available to common shareholders	$30,797	46,826	$0.66	$46,168	46,751	$0.99
Diluted EPS:						
Income from continuing operations available to common shareholders	$30,418	46,826		$50,393	46,751	
Effect of dilutive securities:						
Share options	—	242		—	255	
Income from continuing operations available to common shareholders	$30,418	47,068	$0.64	$50,393	47,006	$1.07
Income (loss) from discontinued operations available to common shareholders	$379	47,068	$0.01	$(4,225)	47,006	$(0.09)
Net income available to common shareholders	$30,797	47,068	$0.65	$46,168	47,006	$0.98

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$9,394			$34,583		
Less: preferred dividend requirements	(7,551)			(15,103)		
Noncontrolling interest adjustments	—			(2)		
Income from continuing operations available to common shareholders	$1,843	46,648	$0.04	$19,478	46,576	$0.42
Income (loss) from discontinued operations available to common shareholders	$(9,392)	46,648	$(0.20)	$7,152	46,576	$0.15
Net income (loss) available to common shareholders	$(7,549)	46,648	$(0.16)	$26,630	46,576	$0.57
Diluted EPS:						
Income from continuing operations available to common shareholders	$1,843	46,648		$19,478	46,576	
Effect of dilutive securities:						
Share options	—	308		—	304	
Income from continuing operations available to common shareholders	$1,843	46,956	$0.04	$19,478	46,880	$0.42
Income (loss) from discontinued operations available to common shareholders	$(9,392)	46,956	$(0.20)	$7,152	46,880	$0.15
Net income (loss) available to common shareholders	$(7,549)	46,956	$(0.16)	$26,630	46,880	$0.57

The additional 1.9 million common shares that would result from the conversion of the Company’s 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of the Company’s 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2012 and 2011 because the effect is anti-dilutive.

14. Equity Incentive Plan

All grants of common shares and options to purchase common shares were issued under the Company's 1997 Share Incentive Plan prior to May 9, 2007, and under the Company's 2007 Equity Incentive Plan on and after May 9, 2007. Under the 2007 Equity Incentive Plan, an aggregate of 1,950,000 common shares, options to purchase common shares and restricted share units, subject to adjustment in the event of certain capital events, may be granted. At June 30, 2012, there were 455,500 shares available for grant under the 2007 Equity Incentive Plan.

Share Options
Share options granted under both the 1997 Share Incentive Plan and the 2007 Equity Incentive Plan have exercise prices equal to the fair market value of a common share at the date of grant. The options may be granted for any

reasonable term, not to exceed 10 years, and for employees typically become exercisable at a rate of 25% per year over a four-year period, however, this was typically at a rate of 20% per year over a five-year period for options granted prior to 2009. For non-employee Trustees, share options are vested upon issuance, however, the share options may not be exercised for a one year period subsequent to the grant date. The Company generally issues new common shares upon option exercise. A summary of the Company's share option activity and related information is as follows:

	Number of shares	Option price per share			Weighted avg. exercise price
Outstanding at December 31, 2011	1,002,833	$18.18	—	$65.50	$34.41
Exercised	(53,430)	18.18	—	36.56	18.91
Granted	103,082	44.62	—	47.99	45.60
Forfeited	(396)	18.18	—	46.69	40.03
Outstanding at June 30, 2012	1,052,089	$18.18	—	$65.50	$36.29

The weighted average fair value of options granted was $12.08 and $9.29 during the six months ended June 30, 2012 and 2011 , respectively. The intrinsic value of stock options exercised was $1.4 million and $1.8 million, during the six months ended June 30, 2012 and 2011, respectively. Additionally, the Company repurchased 32,684 shares into treasury shares in conjunction with the stock options exercised during the six months ended June 30, 2012 with a total value of $1.4 million. At June 30, 2012, stock-option expense to be recognized in future periods was $1.7 million.

The following table summarizes outstanding options at June 30, 2012:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	261,934	6.6		
20.00 - 29.99	168,971	0.7		
30.00 - 39.99	94,913	3.6		
40.00 - 49.99	412,918	6.3		
50.00 - 59.99	10,000	5.9		
60.00 - 65.50	103,353	4.6		
	1,052,089	5.1	$36.29	$9,047

The following table summarizes exercisable options at June 30, 2012:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	161,923	6.3		
20.00 - 29.99	168,971	0.7		
30.00 - 39.99	78,955	2.8		
40.00 - 49.99	247,488	4.5		
50.00 - 59.99	10,000	5.9		
60.00 - 65.50	103,353	4.6		
	770,690	4.0	$36.55	$6,700

Nonvested Shares

A summary of the Company’s nonvested share activity and related information is as follows: