REGENCY CENTERS CORP
Form 10-Q/A
April 17, 2009
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington DC 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

-or-

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

Commission File Number 1-12298

REGENCY CENTERS CORPORATION

(Exact name of registrant as specified in its charter)

FLORIDA	**59-3191743**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

One Independent Drive, Suite 114

Jacksonville, Florida 32202

(Address of principal executive offices) (Zip Code)

(904) 598-7000

(Registrant s telephone number, including area code)

Unchanged

(Former name, former address and former fiscal year, if changed since last report)

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

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

(Check One):	Large accelerated filer x	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 Exchange Act). Yes ¨ No x

(Applicable only to Corporate Registrants)

As of November 7, 2008, there were 70,002,161 shares outstanding of the Registrant s common stock.

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Explanatory Note

As previously disclosed, after seeking guidance from the staff of the Securities and Exchange Commission (SEC) regarding an accounting matter for which there was no clear interpretive authority, Regency Centers Corporation and its operating partnership, Regency Centers, L.P., have adopted a more restrictive method of deferred gain recognition (Restricted Gain Method) on partial sales of properties to co-investment partnerships that provide for a distribution-in-kind (DIK) of assets upon liquidation (DIK-JV). This more restrictive method of recognizing deferred gains will be applied retrospectively from the inception of the co-investment partnerships. As a result, on March 12, 2009, our Audit Committee concluded that our previously filed financial statements for the third quarter of fiscal year 2008 should no longer be relied upon and that prior periods should also be restated to reflect this more restrictive method of deferred gain recognition. Such other prior periods are restated where discussed in this Amendment No. 1 on Form 10-Q/A (Form 10-Q/A) and in our recently filed Form 10-K for fiscal year 2008.

Historically, we previously recognized gains from sales to co-investment partnerships to the extent of the percentage interest sold and deferred gains to the extent of our ownership interest in the co-investment partnerships. We also previously recognized any remaining deferred gain as equity in income of investments in real estate partnerships when a property was sold by a co-investment partnership to a third party. This policy will no longer be applied to any DIK-JV.

Under the Restricted Gain Method, for purposes of gain deferral, we now consider the aggregate pool of properties sold into the DIK-JV as well as the aggregate pool of properties which will be distributed in the DIK process. As a result, upon the sale of properties to a DIK-JV, we perform a hypothetical DIK liquidation assuming that we would choose only those properties that we had sold to the DIK-JV in an amount equivalent to our capital account. For purposes of calculating the gain to be deferred, we assume that we will select properties upon a DIK liquidation that generated the highest gain to us when originally sold to the DIK-JV. The DIK deferred gain is calculated whenever a property is sold to the DIK-JV by us. During the years when there are no property sales, the DIK deferred gain is not recalculated. Because of the contingency associated with the possibility of receiving a particular property back upon liquidation, which forms the basis of the Restricted Gain Method, is not satisfied at the property level, but at the aggregate level, no gain or loss is recognized on property sold by the DIK-JV to a third party or received by us upon actual dissolution. Instead, the property received upon actual dissolution is recorded at our historical cost investment in the DIK-JV, reduced by the deferred gain.

This Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, initially filed with the SEC on November 10, 2008 (Original Filing), is being filed to reflect restatements of (i) our Consolidated Balance Sheets at September 30, 2008 and December 31, 2007 and (ii) our Consolidated Statements of Operations and Stockholders Equity and Comprehensive Income (Loss) for the periods ended September 30, 2008, and the notes related thereto. There was no effect on our Consolidated Statements of Operations for the three and nine months ended September 30, 2007 or total operating, investing, and financing activities on our Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 or 2007. For a more detailed description of these restatements, see Note 2, Restatement of Consolidated Financial Statements to our consolidated financial statements and the section entitled Restatement in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

This Form 10-Q/A only amends and restates Items 1, 2, and 4 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively.

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Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 which has been previously filed and any reports filed with the SEC subsequent to the date of this filing.

We have not amended and do not intend to amend our previously filed Annual Reports on Form 10-K or our Quarterly Reports on Form 10-Q for the periods affected by the restatement that ended prior to September 30, 2008.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REGENCY CENTERS CORPORATION

Consolidated Balance Sheets

September 30, 2008 and December 31, 2007

(in thousands, except share data)

	2008 (unaudited and as restated)	2007 (as restated)
Assets		
Real estate investments at cost:		
Land	$ 939,851	968,859
Buildings and improvements	2,023,322	2,090,497
	2,963,173	3,059,356
Less: accumulated depreciation	545,979	497,498
	2,417,194	2,561,858
Properties in development	1,075,796	905,929
Operating properties held for sale, net	33,538	
Investments in real estate partnerships	387,009	401,906
Net real estate investments	3,913,537	3,869,693
Cash and cash equivalents	25,777	18,668
Notes receivable	55,264	44,543
Tenant receivables, net of allowance for uncollectible accounts of $1,692 and $2,482 at September 30, 2008 and December 31, 2007, respectively	73,936	75,441
Deferred costs, less accumulated amortization of $49,165 and $43,470 at September 30, 2008 and December 31, 2007, respectively	58,289	52,784
Acquired lease intangible assets, less accumulated amortization of $10,891 and $7,362 at September 30, 2008 and December 31, 2007, respectively	13,698	17,228
Other assets	41,663	36,416
Total assets	$ 4,182,164	4,114,773
Liabilities and Stockholders Equity		
Liabilities:		
Notes payable	$ 1,839,340	1,799,975
Unsecured credit facilities	297,667	208,000
Accounts payable and other liabilities	156,530	164,479
Acquired lease intangible liabilities, less accumulated accretion of $8,319 and $6,371 at September 30, 2008 and December 31, 2007, respectively	8,407	10,354
Tenants security and escrow deposits	11,869	11,436
Total liabilities	2,313,813	2,194,244

Preferred units	49,158	49,158
Exchangeable operating partnership units, aggregate redemption value of $31,225 and $30,543 at September 30, 2008 and December 31, 2007, respectively	9,773	10,212
Limited partners interest in consolidated partnerships	8,221	18,392
Total minority interest	67,152	77,762
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value per share, 30,000,000 shares authorized; 11,000,000 Series 3-5 shares issued and outstanding at September 30, 2008 with liquidation preferences of $25 per share and 800,000 Series 3 and 4 shares and 3,000,000 Series 5 shares issued and outstanding at December 31, 2007 with liquidation preferences of $250 and $25 per share, respectively	275,000	275,000
Common stock $.01 par value per share, 150,000,000 shares authorized; 75,598,609 and 75,168,662 shares issued at September 30, 2008 and December 31, 2007, respectively	756	752
Treasury stock at cost, 5,598,211 and 5,530,025 shares held at September 30, 2008 and December 31, 2007, respectively	(111,414)	(111,414)
Additional paid in capital	1,781,487	1,766,280
Accumulated other comprehensive income (loss)	(26,299)	(18,916)
Distributions in excess of net income	(118,331)	(68,935)
Total stockholders equity	1,801,199	1,842,767
	$ 4,182,164	4,114,773

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statements of Operations

For the three months ended September 30, 2008 and 2007

(in thousands, except per share data)

(unaudited)

	2008 (as restated)	2007
Revenues:		
Minimum rent	$ 86,809	79,218
Percentage rent	631	889
Recoveries from tenants and other income	27,612	23,804
Management, acquisition, and other fees	7,746	10,789
Total revenues	122,798	114,700
Operating expenses:		
Depreciation and amortization	27,130	23,787
Operating and maintenance	15,162	13,424
General and administrative	9,494	12,159
Real estate taxes	12,757	11,381
Other expenses	5,611	1,625
Total operating expenses	70,154	62,376
Other expense (income):		
Interest expense, net of interest income of $1,408 and $840 in 2008 and 2007, respectively	22,683	20,515
Gain on sale of operating properties and properties in development	(14,685)	(5,492)
Provision for loss	1,112	
Total other expense (income)	9,110	15,023
Income before minority interests and equity in income (loss) of investments in real estate partnerships	43,534	37,301
Minority interest of preferred units	(931)	(931)
Minority interest of exchangeable operating partnership units	(295)	(268)
Minority interest of limited partners	(122)	(241)
Equity in income of investments in real estate partnerships	1,817	1,677
Income from continuing operations	44,003	37,538
Discontinued operations, net:		
Operating income from discontinued operations	896	1,221
Gain on sale of operating properties and properties in development	3,920	3,140
Income from discontinued operations	4,816	4,361
Net income	48,819	41,899
Preferred stock dividends	(4,919)	(4,919)
Net income for common stockholders	$ 43,900	36,980

Income per common share - basic:			
Continuing operations	$	0.56	0.47
Discontinued operations		0.07	0.06
Net income for common stockholders per share	$	0.63	0.53
Income per common share - diluted:			
Continuing operations	$	0.56	0.47
Discontinued operations		0.07	0.06
Net income for common stockholders per share	$	0.63	0.53

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statements of Operations

For the nine months ended September 30, 2008 and 2007

(in thousands, except per share data)

(unaudited)

	2008 (as restated)	2007
Revenues:		
Minimum rent	$ 256,451	231,156
Percentage rent	1,712	1,965
Recoveries from tenants and other income	76,009	67,977
Management, acquisition, and other fees	28,159	24,667
Total revenues	362,331	325,765
Operating expenses:		
Depreciation and amortization	78,709	66,191
Operating and maintenance	44,950	38,998
General and administrative	36,770	37,363
Real estate taxes	37,683	33,852
Other expenses	7,077	3,346
Total operating expenses	205,189	179,750
Other expense (income):		
Interest expense, net of interest income of $2,945 and $2,370 in 2008 and 2007, respectively	68,673	60,215
Gain on sale of operating properties and properties in development	(17,620)	(34,586)
Provision for loss	1,828	
Total other expense (income)	52,881	25,629
Income before minority interests and equity in income (loss) of investments in real estate partnerships	104,261	120,386
Minority interest of preferred units	(2,794)	(2,794)
Minority interest of exchangeable operating partnership units	(708)	(1,046)
Minority interest of limited partners	(603)	(757)
Equity in income of investments in real estate partnerships	5,574	6,245
Income from continuing operations	105,730	122,034
Discontinued operations, net:		
Operating income from discontinued operations	2,802	4,288
Gain on sale of operating properties and properties in development	8,712	21,849
Income from discontinued operations	11,514	26,137
Net income	117,244	148,171
Preferred stock dividends	(14,757)	(14,757)
Net income for common stockholders	$ 102,487	133,414

Income per common share - basic:			
Continuing operations	$	1.30	1.55
Discontinued operations		0.17	0.38
Net income for common stockholders per share	$	1.47	1.93
Income per common share - diluted:			
Continuing operations	$	1.30	1.54
Discontinued operations		0.16	0.38
Net income for common stockholders per share	$	1.46	1.92

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss)

For the nine months ended September 30, 2008

(in thousands, except per share data)

(unaudited)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total Stockholders Equity
Balance at December 31, 2007, as previously reported	$ 275,000	752	(111,414)	1,766,280	(18,916)	(41,316)	1,870,386
Restatement adjustments						(27,619)	(27,619)
Balance at December 31, 2007, as restated	$ 275,000	752	(111,414)	1,766,280	(18,916)	(68,935)	1,842,767
Comprehensive Income:							
Net income						117,244	117,244
Amortization of loss on derivative instruments					978		978
Change in fair value of derivative instruments					(8,361)		(8,361)
Total comprehensive income							109,861
Restricted stock issued, net of amortization		3		13,088			13,091
Common stock redeemed for taxes withheld for stock based compensation, net		1		(367)			(366)
Tax benefit for issuance of stock options				2,285			2,285
Common stock issued for partnership units exchanged				232			232
Reallocation of minority interest				(31)			(31)
Cash dividends declared:							
Preferred stock						(14,757)	(14,757)
Common stock ($2.175 per share)						(151,883)	(151,883)
Balance at September 30, 2008, as restated	$ 275,000	756	(111,414)	1,781,487	(26,299)	(118,331)	1,801,199

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2008 and 2007

(in thousands)

(unaudited)

	2008 (as restated)	2007
Cash flows from operating activities:		
Net income	$ 117,244	148,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,932	67,916
Deferred loan cost and debt premium amortization	3,165	2,612
Stock-based compensation, net of capitalization	8,833	8,921
Minority interest of preferred units	2,794	2,794
Minority interest of exchangeable operating partnership units	786	1,270
Minority interest of limited partners	603	757
Equity in income of investments in real estate partnerships	(5,574)	(6,245)
Net gain on sale of properties	(26,390)	(56,622)
Provision for loss	1,828	
Distribution of earnings from operations of investments in real estate partnerships	25,862	24,043
Changes in assets and liabilities:		
Tenant receivables	1,314	346
Deferred leasing costs	(4,715)	(5,531)
Other assets	(9,119)	(20,950)
Accounts payable and other liabilities	(8,542)	5,620
Above and below market lease intangibles, net	(1,861)	(1,332)
Tenants security and escrow deposits	509	255
Net cash provided by operating activities	186,669	172,025
Cash flows from investing activities:		
Acquisition of operating real estate		(63,117)
Development of real estate including acquisition of land	(342,457)	(477,193)
Proceeds from sale of real estate investments	200,357	211,024
Collection of notes receivable	27,787	530
Investments in real estate partnerships	(40,969)	(34,476)
Distributions received from investments in real estate partnerships	28,549	11,065
Net cash used in investing activities	(126,733)	(352,167)
Cash flows from financing activities:		
Net proceeds from common stock issuance	1,017	2,372
Distributions to limited partners in consolidated partnerships, net	(13,705)	(4,120)
Distributions to exchangeable operating partnership unit holders	(1,023)	(1,426)
Distributions to preferred unit holders	(2,794)	(1,862)
Dividends paid to common stockholders	(148,581)	(134,331)
Dividends paid to preferred stockholders	(14,757)	(9,838)
Proceeds from issuance of fixed rate unsecured notes		398,108
Proceeds from (repayment of) unsecured credit facilities, net	89,667	(11,000)

Proceeds from notes payable		62,500	
Repayment of notes payable		(19,722)	(49,243)
Scheduled principal payments		(3,516)	(3,318)
Payment of loan costs		(1,913)	(5,675)
Net cash (used in) provided by financing activities		(52,827)	179,667
Net increase (decrease) in cash and cash equivalents		7,109	(475)
Cash and cash equivalents at beginning of the period		18,668	34,046
Cash and cash equivalents at end of the period	$	25,777	33,571

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REGENCY CENTERS CORPORATION

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2008 and 2007

(in thousands)

(unaudited)

		2008 (as restated)	2007
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of capitalized interest of $28,847 and $26,070 in 2008 and 2007, respectively)	$	76,427	66,232
Preferred unit and stock distributions declared and not paid	$		5,850
Supplemental disclosure of non-cash transactions:			
Common stock issued for partnership units exchanged	$	232	8,241
Mortgage loans assumed for the acquisition of real estate, at fair value	$		42,272
Real estate contributed as investments in real estate partnerships	$	6,825	5,318
Notes receivable taken in connection with sales of properties in development and out-parcels	$	39,619	879
Change in fair value of derivative instruments	$	(8,361)	(5,693)
Common stock issued for dividend reinvestment plan	$	3,302	3,117
Stock-based compensation capitalized	$	5,294	5,674

See accompanying notes to consolidated financial statements.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

September 30, 2008

1. Summary of Significant Accounting Policies

(a) Organization and Principles of Consolidation

General

Regency Centers Corporation (Regency or the Company) began its operations as a Real Estate Investment Trust (REIT) in 1993 and is the managing general partner of its operating partnership, Regency Centers, L.P. (RCLP or the Partnership). Regency currently owns approximately 99% of the outstanding common partnership units (Units) of the Partnership. Regency engages in the ownership, management, leasing, acquisition, and development of retail shopping centers through the Partnership, and has no other assets or liabilities other than through its investment in the Partnership. At September 30, 2008, the Partnership directly owned 227 retail shopping centers and held partial interests in an additional 216 retail shopping centers through investments in real estate partnerships (also referred to as co-investment partnerships or joint ventures).

Consolidation

The accompanying consolidated financial statements include the accounts of the Company, the Partnership, its wholly owned subsidiaries, and joint ventures in which the Partnership has a controlling interest. The equity interests of third parties held in the Partnership or its controlled joint ventures are included in the consolidated financial statements as preferred units, exchangeable operating partnership units, or limited partners interest in consolidated partnerships. All significant inter-company balances and transactions were eliminated in the consolidated financial statements.

Investments in real estate partnerships not controlled by the Company are accounted for under the equity method. The Company has evaluated its investment in the real estate partnerships and has concluded that they are not variable interest entities as defined in Financial Accounting Standards Board (FASB) Interpretation No. 46(R) Consolidation of Variable Interest Entities (FIN 46(R)). Further, the venture partners in the real estate partnerships have significant ownership rights, including approval over operating budgets and strategic plans, capital spending, sale or financing, and admission of new partners. The Company has concluded that the equity method of accounting is appropriate for these interests and they do not require consolidation under Emerging Issues Task Force Issue No. 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5), or the American Institute of Certified Public Accountants (AICPA) Statement of Position 78-9, Accounting for Investments in Real Estate Ventures (SOP 78-9). Under the equity method of accounting, investments in the real estate partnerships are initially recorded at cost, subsequently increased for additional contributions and allocations of income, and reduced for distributions received and allocations of loss. These investments are included in the consolidated financial statements as investments in real estate partnerships.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

September 30, 2008

Ownership of the Company

Regency has a single class of common stock outstanding and three series of preferred stock outstanding (Series 3, 4, and 5 Preferred Stock). The dividends on the Series 3, 4, and 5 Preferred Stock are cumulative and payable in arrears on the last day of each calendar quarter. The Company owns corresponding Series 3, 4, and 5 preferred unit interests (Series 3, 4, and 5 Preferred Units) in the Partnership that entitle the Company to income and distributions from the Partnership in amounts equal to the dividends paid on the Company s Series 3, 4, and 5 Preferred Stock.

Ownership of the Operating Partnership

The Partnership s capital includes general and limited common Partnership Units, Series 3, 4, and 5 Preferred Units owned by the Company, and Series D Preferred Units owned by institutional investors.

At September 30, 2008, the Company owned approximately 99% or 70,000,398 Partnership Units of the total 70,468,609 Partnership Units outstanding. Each outstanding common Partnership Unit not owned by the Company is exchangeable for one share of Regency common stock or can be redeemed for cash, at the Company s discretion (see Note 1(l)). The Company revalues the minority interest associated with the Partnership Units each quarter to maintain a proportional relationship between the book value of equity associated with common stockholders relative to that of the Partnership Unit holders since both have equivalent rights and the Partnership Units are convertible into shares of common stock on a one-for-one basis.

Net income and distributions of the Partnership are allocable first to the Preferred Units, and the remaining amounts to the general and limited Partnership Units in accordance with their ownership percentage. The Series 3, 4, and 5 Preferred Units owned by the Company are eliminated in consolidation.

(b) Revenues

The Company leases space to tenants under agreements with varying terms. Leases are accounted for as operating leases with minimum rent recognized on a straight-line basis over the term of the lease regardless of when payments are due. Accrued rents are included in tenant receivables. The Company estimates the collectibility of the accounts receivable related to base rents, straight-line rents, expense reimbursements, and other revenue taking into consideration the Company s experience in the retail sector, available internal and external tenant credit information, payment history, industry trends, tenant credit-worthiness, and remaining lease terms. In some cases, primarily relating to straight-line rents, the collection of these amounts extends beyond one year. Substantially all of the lease agreements contain provisions that provide for additional rents based on tenants sales volume (percentage rent) and reimbursement of the tenants share of real estate taxes, insurance, and common area maintenance (CAM) costs. Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. Recovery of real estate taxes, insurance, and CAM costs are recognized as the respective costs are incurred in accordance with the lease agreements.

Regency Centers Corporation

Notes to Consolidated Financial Statements

September 30, 2008

As part of the leasing process, the Company may provide the lessee with an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized as part of the building, recorded as tenant improvements, and depreciated over the shorter of the useful life of the improvements or the lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of rental revenue. Factors considered during this evaluation include, among others, who holds legal title to the improvements as well as other controlling rights provided by the lease agreement (e.g. unilateral control of the tenant space during the build-out process). Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. Recognition of lease revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements when the Company is the owner of the leasehold improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date is when the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements.

The Company accounts for profit recognition on sales of real estate in accordance with Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate (Statement 66). In summary, profits from sales are not recognized under the full accrual method by the Company unless a sale is consummated; the buyer s initial and continuing investment is adequate to demonstrate a commitment to pay for the property; the Company s receivable, if applicable, is not subject to future subordination; the Company has transferred to the buyer the usual risks and rewards of ownership; and the Company does not have substantial continuing involvement with the property.

The Company sells shopping center properties to joint ventures in exchange for cash equal to the fair value of the percentage interest owned by its partners. The Company accounts for those sales as partial sales and recognizes gains on those partial sales in the period the properties were sold to the extent of the percentage interest sold under the guidance of Statement 66, and in the case of certain partnerships, applies a more restrictive method of recognizing gains, as discussed further below. The gains and operations are not recorded as discontinued operations because the Company continues to manage these shopping centers.

Five of the Company s joint ventures (DIK-JV) give either partner the unilateral right to elect to dissolve the partnership and, upon such an election, receive a distribution in-kind (DIK) of the assets of the partnership equal to their respective ownership interests, which could include properties the Company sold to the partnership. The liquidation procedures would require that all of the properties owned by the partnership be appraised to determine their respective and collective fair values. As a general rule, if the Company initiates the liquidation process, its partner has the right to choose the first property that it will receive in liquidation with the Company having the right to choose the next property that it will receive in liquidation. If the Company s partner initiates the liquidation process, the order of the selection process is reversed. The process then continues with alternating selection of properties by each partner until the balance of each partner s capital account on a fair value basis has been distributed. After the final selection, to the extent that the fair value of properties in the DIK-JV are not distributable in a manner that equals the balance of each partner s capital account, a cash payment would be made by the partner receiving a fair

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value in excess of its capital account to the other partner. The partners may also elect to liquidate some or all of the properties through sales rather than through the DIK process.

The Company has concluded that these DIK dissolution provisions constitute in-substance call/put options under the guidance of Statement 66, and represent a form of continuing involvement with respect to property that the Company has sold to these partnerships, limiting the Company s recognition of gain related to the partial sale. To the extent that the DIK-JV owns more than one property and the Company is unable to obtain all of the properties it sold to the DIK-JV in liquidation, the Company applies a more restrictive method of gain recognition (Restricted Gain Method) which considers the Company s potential ability to receive property through a DIK on which partial gain has been recognized, and ensures, as discussed below, maximum gain deferral upon sale to a DIK-JV. The Company has applied the Restricted Gain Method to partial sales of property to partnerships that contain unilateral DIK provisions.

Under current guidance, (Statement 66, paragraph 25), profit shall be recognized by a method determined by the nature and extent of the seller s continuing involvement and the profit recognized shall be reduced by the maximum exposure to loss. The Company has concluded that the Restricted Gain Method accomplishes this objective.

Under the Restricted Gain Method, for purposes of gain deferral, the Company considers the aggregate pool of properties sold into the DIK-JV as well as the aggregate pool of properties which will be distributed in the DIK process. As a result, upon the sale of properties to a DIK-JV, the Company performs a hypothetical DIK liquidation assuming that it would choose only those properties that it has sold to the DIK-JV in an amount equivalent to its capital account. For purposes of calculating the gain to be deferred, the Company assumes that it will select properties upon a DIK liquidation that generated the highest gain to the Company when originally sold to the DIK-JV. The DIK deferred gain is calculated whenever a property is sold to the DIK-JV by the Company. During the years when there are no property sales, the DIK deferred gain is not recalculated.

Because the contingency associated with the possibility of receiving a particular property back upon liquidation, which forms the basis of the Restricted Gain Method, is not satisfied at the property level, but at the aggregate level, no gain or loss is recognized on property sold by the DIK-JV to a third party or received by the Company upon actual dissolution. Instead, the property received upon actual dissolution is recorded at the Company s historical cost investment in the DIK-JV, reduced by the deferred gain.

The Company has been engaged under agreements with their joint venture partners to provide asset management, property management, leasing, investing, and financing services for such ventures shopping centers. The fees are market-based, generally calculated as a percentage of either revenues earned or the estimated values of the properties managed, and are recognized as services are rendered, when fees due are determinable and collectibility is reasonably assured.

(c) Real Estate Investments

Land, buildings, and improvements are recorded at cost. All specifically identifiable costs related to development activities are capitalized into properties in development on the accompanying Consolidated Balance Sheets and are accounted for in accordance with

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SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects (Statement 67). In summary, Statement 67 establishes that a rental project changes from nonoperating to operating when it is substantially completed and available for occupancy. At that time, costs should no longer be capitalized. The capitalized costs include pre-development costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, and direct employee costs incurred during the period of development.

The Company incurs costs prior to land acquisition including contract deposits, as well as legal, engineering, and other external professional fees related to evaluating the feasibility of developing a shopping center. These pre-development costs are included in properties in development in the accompanying Consolidated Balance Sheets. At September 30, 2008 and December 31, 2007, the Company had capitalized pre-development costs of $22.6 million and $22.7 million, respectively, of which $9.2 million and $10.8 million, respectively, were refundable deposits. If the Company determines that the development of a particular shopping center is no longer probable, any related pre-development costs previously capitalized are immediately expensed in other expenses in the accompanying Consolidated Statements of Operations. During the nine months ended September 30, 2008 and 2007, the Company expensed pre-development costs of $4.6 million and $3.0 million, respectively.

The Company s method of capitalizing interest is based upon applying its weighted average borrowing rate to that portion of the actual development costs expended. The Company generally ceases interest cost capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in no event would the Company capitalize interest on the project beyond 12 months after substantial completion of the building shell.

Maintenance and repairs that do not improve or extend the useful lives of the respective assets are recorded in operating and maintenance expense.

Depreciation is computed using the straight-line method over estimated useful lives of up to 40 years for buildings and improvements, the shorter of the useful life or the lease term for tenant improvements, and three to seven years for furniture and equipment.

The Company and the real estate partnerships allocate the purchase price of assets acquired (net tangible and identifiable intangible assets) and liabilities assumed based on their relative fair values at the date of acquisition pursuant to the provisions of SFAS No. 141, Business Combinations (Statement 141). Statement 141 provides guidance on the allocation of a portion of the purchase price of a property to intangible assets. The Company s methodology for this allocation includes estimating an as-if vacant fair value of the physical property, which is allocated to land, building, and improvements. The difference between the purchase price and the as-if vacant fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above and below-market value of in-place leases, and (iii) customer relationship value.

The value of in-place leases is estimated based on the value associated with the costs avoided in originating leases compared to the acquired in-place leases as well as the value associated with lost rental and recovery revenue during the assumed lease-up period. The value of in-place leases is recorded to amortization expense over the remaining initial term

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of the respective leases in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (Statement 142).

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for comparable in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The value of above-market leases is amortized as a reduction of minimum rent over the remaining terms of the respective leases as required by Statement 142. The value of below-market leases is accreted as an increase to minimum rent over the remaining terms of the respective leases, including below-market renewal options, if applicable, as required by Statement 142. The Company does not allocate value to customer relationship intangibles if it has pre-existing business relationships with the major retailers in the acquired property since they do not provide incremental value over the Company s existing relationships.

The Company and its investments in real estate partnerships follow the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144). In accordance with Statement 144, the Company classifies an operating property or a property in development as held-for-sale when the Company determines that the property is available for immediate sale in its present condition, the property is being actively marketed for sale, and management believes it is probable that a sale will be consummated. Given the nature of all real estate sales contracts, it is not unusual for such contracts to allow prospective buyers a period of time to evaluate the property prior to formal acceptance of the contract. In addition, certain other matters critical to the final sale, such as financing arrangements, often remain pending even upon contract acceptance. As a result, properties under contract may not close within the expected time period, or may not close at all. Due to these uncertainties, it is not likely that the Company can meet the criteria of Statement 144 prior to the sale formally closing. Therefore, any properties categorized as held-for-sale represent only those properties that management has determined are probable to close within the requirements set forth in Statement 144. Operating properties held-for-sale are carried at the lower of cost or fair value less costs to sell. The recording of depreciation and amortization expense is suspended during the held-for-sale period.

In accordance with Statement 144, when the Company sells a property or classifies a property as held-for-sale and will not have significant continuing involvement in the operation of the property, the operations of the property are eliminated from ongoing operations and classified in discontinued operations. Its operations, including any mortgage interest and gain on sale, are reported in discontinued operations so that the operations and cash flows are clearly distinguished. Prior periods are also re-presented to reflect the operations of these properties as discontinued operations. When the Company sells operating properties to its joint ventures or to third parties, and will have continuing involvement, the operations and gains on sales are included in income from continuing operations.

The Company reviews its real estate portfolio including the properties owned through investments in real estate partnerships for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based upon expected undiscounted cash flows from the property. The Company determines impairment by comparing the property s carrying value to an estimate of fair value based upon varying methods such as i) estimating undiscounted future cash flows, ii) determining resale values

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by market through appraisal information, or iii) applying a capitalization rate to net operating income using prevailing rates in a given market. These methods of determining fair value can fluctuate significantly as a result of a number of factors, including changes in the general economy of those markets in which the Company operates, tenant credit quality, and demand for new retail stores. During the nine months ended September 30, 2008, the Company established a provision for an impairment loss of $716,000 to adjust a real estate investment to its estimated fair value and no provision for loss was recorded for any properties owned through investments in real estate partnerships.

(d) Income Taxes

The Company believes it qualifies, and intends to continue to qualify, as a REIT under the Internal Revenue Code (the Code). As a REIT, the Company will generally not be subject to federal income tax, provided that distributions to its stockholders are at least equal to REIT taxable income.

Regency Realty Group, Inc. (RRG), a wholly-owned subsidiary of RCLP, is a Taxable REIT Subsidiary as defined in Section 856(l) of the Code. RRG is subject to federal and state income taxes and files separate tax returns. During the nine months ended September 30, 2008 and 2007, the Company recorded income tax expense of $963,905 and an income tax benefit of $712,680, respectively which is included in other expenses in the accompanying Consolidated Statements of Operations.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates in effect for the year in which these temporary differences are expected to be recovered or settled.

Earnings and profits, which determine the taxability of dividends to stockholders, differs from net income reported for financial reporting purposes primarily because of differences in depreciable lives and cost bases of the shopping centers, as well as other timing differences.

The Company accounts for uncertainties in income tax law in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years (after 2004 for federal and state) based on an assessment of many factors including past experience and interpretations of tax laws applied to the facts of each matter.

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(e) Deferred Costs

Deferred costs include leasing costs and loan costs, net of accumulated amortization. Such costs are amortized over the periods through lease expiration or loan maturity, respectively. Deferred leasing costs consist of internal and external commissions associated with leasing the Company s shopping centers. Net deferred leasing costs were $46.9 million and $41.2 million at September 30, 2008 and December 31, 2007, respectively. Deferred loan costs consist of initial direct and incremental costs associated with financing activities. Net deferred loan costs were $11.4 million and $11.6 million at September 30, 2008 and December 31, 2007, respectively.

(f) Earnings per Share and Treasury Stock

The Company calculates earnings per share in accordance with SFAS No. 128, Earnings per Share (Statement 128). Basic earnings per share of common stock is computed based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the conversion of obligations and the assumed exercises of securities including the effects of shares issuable under the Company s share-based payment arrangements, if dilutive. See Note 13 for the calculation of earnings per share (EPS).

Repurchases of the Company s common stock are recorded at cost and are reflected as Treasury stock in the accompanying Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss). Regency s outstanding shares do not include treasury shares.

(g) Cash and Cash Equivalents

Any instruments which have an original maturity of 90 days or less when purchased are considered cash equivalents. At September 30, 2008 and December 31, 2007, $8.5 million and $8.0 million of cash was restricted, respectively.

(h) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Stock-Based Compensation

Regency grants stock-based compensation to its employees and directors. When Regency issues common shares as compensation, it receives a like number of common units from the Partnership. Regency is committed to contribute to the Partnership all proceeds from the exercise of stock options or other share-based awards granted under Regency s Long-Term Omnibus Plan (the Plan). Accordingly, Regency s ownership in the Partnership will increase based on the amount of proceeds contributed to the Partnership for the common units it receives. As a result of the issuance of common units to Regency for stock-based

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compensation, the Partnership accounts for stock-based compensation in the same manner as Regency.

The Company recognizes stock-based compensation in accordance with SFAS No. 123(R) Share-Based Payment (Statement 123(R)) which requires companies to measure the cost of stock-based compensation based on the grant-date fair value of the award. The cost of the stock-based compensation is expensed over the vesting period. See Note 12 for further discussion.

(j) Segment Reporting

The Company s business is investing in retail shopping centers through direct ownership or through joint ventures. The Company actively manages its portfolio of retail shopping centers and may from time to time make decisions to sell lower performing properties or developments not meeting its long-term investment objectives. The proceeds from sales are reinvested into higher quality retail shopping centers through acquisitions or new developments, which management believes will meet its planned rate of return. It is management s intent that all retail shopping centers will be owned or developed for investment purposes; however, the Company may decide to sell all or a portion of a development upon completion. The Company s revenue and net income are generated from the operation of its investment portfolio. The Company also earns fees from third parties for services provided to manage and lease retail shopping centers owned through joint ventures.

The Company s portfolio is located throughout the United States; however, management does not distinguish or group its operations on a geographical basis for purposes of allocating resources or measuring performance. The Company reviews operating and financial data for each property on an individual basis; therefore, the Company defines an operating segment as its individual properties. No individual property constitutes more than 10% of the Company s combined revenue, net income or assets, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to both the nature and economics of the centers, tenants and operational processes, as well as long-term average financial performance. In addition, no single tenant accounts for 6% or more of revenue and none of the shopping centers are located outside the United States.

(k) Derivative Financial Instruments

The Company accounts for all derivative financial instruments in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (Statement 133) as amended by SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (Statement 149). Statement 133 requires that all derivative instruments, whether designated in hedging relationships or not, be recorded on the balance sheet at their fair values. Gains or losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company s use of derivative financial instruments is normally to mitigate its interest rate risk on a related financial instrument or forecasted transaction through the use of interest rate swaps. The Company designates these interest rate swaps as cash flow hedges.

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Statement 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in accumulated other comprehensive income (OCI) while the ineffective portion of the derivative s change in fair value be recognized in the income statement as interest expense. Upon the settlement of a hedge, gains and losses associated with the transaction are recorded in OCI and amortized over the underlying term of the hedge transaction. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

In assessing the hedges, the Company uses standard market conventions and techniques such as discounted cash flow analysis, option pricing models, and termination costs at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized. See Notes 9 and 10 for further discussion.

(l) Regency s Redeemable Minority Interests

EITF D-98 Classification and Measurement of Redeemable Securities, clarifies Rule 5-02.28 of Regulation S-X and requires securities that are redeemable for cash or other assets to be classified outside of permanent equity if they are redeemable (i) at a fixed or determinable price on a fixed or determinable date; (ii) at the option of the holder; or (iii) upon the occurrence of an event that is not solely within the control of the issuer. Minority interest in the operating partnership is classified as exchangeable operating partnership units (OP Units) in Regency s accompanying Consolidated Balance Sheets. The holders may redeem these OP Units for a like number of shares of common stock of Regency or cash, at the Company s discretion. See Note 10 for further discussion.

(m) Financial Instruments with Characteristics of Both Liabilities and Equity

The Company accounts for minority interest in consolidated entities in accordance with SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (Statement 150) which requires companies having consolidated entities with specified termination dates to treat minority owners interests in such entities as liabilities in an amount based on the fair value of the entities. See Note 10 for further discussion.

(n) Assets and Liabilities Measured at Fair Value

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (Statement 157) as amended by FASB Staff Position Effective Date of FASB Statement No. 157 (FSP FAS 157-2). Statement 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, Statement 157 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

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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). The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability, which are typically based on the Company s own assumptions, as there is little, if any, related market activity.

In February 2007, the FASB Issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Statement 159 was effective and adopted by the Company on January 1, 2008; however, the Company did not elect to measure any other financial statement items at fair value. See Note 10 for all fair value measurements of assets and liabilities made on a recurring and nonrecurring basis.

(o) Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (Statement 162). This Statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. This Statement is effective November 15, 2008 and the adoption of this statement will not have any effect on the Company.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3 Determination of the Useful Life of Intangible Assets (FAS 142-3). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141R, and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact of adopting this statement although the impact is not considered to be material as only further disclosure is required.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (Statement 161). This Statement amends Statement 133 and changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial

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performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact of adopting this statement although the impact is not considered to be material as only further disclosure is required.

In February 2008, the FASB amended Statement 157 with FSP FAS 157-2 Effective Date of FASB Statement No. 157 (FSP FAS 157-2) to delay the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities to be effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company does not believe the adoption of FSP FAS 157-2 for its nonfinancial assets and liabilities will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements (Statement 160). This Statement, among other things, establishes accounting and reporting standards for a parent company s interest in a subsidiary. This Statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 with early adoption prohibited. The Company is currently evaluating the impact of adopting the statement although the impact is not considered to be material as only changes in presentation and further disclosure are required.

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations (Statement 141(R)). This Statement, among other things, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This Statement also establishes disclosure requirements of the acquirer to enable users of the financial statements to evaluate the effect of the business combination. This Statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. The impact on the Company s and its investments in real estate partnerships financial statements will be reflected at the time of any acquisition after the implementation date that meets the requirements above.

(p) Reclassifications

Certain reclassifications have been made to the 2007 amounts to conform to classifications adopted in 2008.

2. Restatement of Consolidated Financial Statements

As described further in Note 1(b), certain of the Company s co-investment partnership agreements contain unilateral DIK provisions. Such provisions constitute in-substance call/put options on properties sold to co-investment partnerships with unilateral DIK provisions and are a form of continuing involvement under Statement 66. As a result, the Company has adopted and applied the Restricted Gain Method, which maximizes gain deferral on partial sales of real estate to DIK-JVs. The Company previously recognized gains from such sales to all co-investment partnerships to the extent of the percentage interest sold and deferred gains to the extent of the Company s ownership interest in the co-investment partnerships.

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The Company also previously recognized any remaining deferred gain as equity in income of investments in real estate partnerships when a property was sold by a co-investment partnership to a third party. This policy will no longer be applied to any DIK-JV. Instead, the property received upon dissolution will be recorded at the Company s investment in the DIK-JV, reduced by the deferred gain. The Company sold properties to DIK-JVs during the three months ended September 30, 2008 and the years 2001 to 2005. The Company did not sell any properties to DIK-JVs during 2007 or 2006.

The Company s December 31, 2007 accompanying Consolidated Balance Sheet has been corrected to reflect the cumulative adjustments associated with the application of the Restricted Gain Method for years prior to 2006; accordingly, its investments in real estate partnerships has been decreased by $31.0 million, its net deferred tax asset recorded in other assets has been increased by $2.8 million, its minority interest in exchangeable partnership units has been decreased by approximately $620,000, and its distributions in excess of net income have been decreased by $27.6 million. The Company s January 1, 2008 opening balance of distributions in excess of net income has been restated in the accompanying Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss) by $27.6 million related to additional gain deferrals on partial sales to DIK-JVs of $27.1 million, net of tax and minority interest in exchangeable operating partnership units, and the reversal of gains of approximately $511,000 associated with subsequent DIK-JV property sales to third parties to reflect the retrospective application of the Restricted Gain Method.

The Company restated the gains reported in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2008 by a reduction of $10.6 million, net of approximately $71,000 of minority interest in exchangeable operating partnership units, or $.15 per diluted share related to three partial sales to a DIK-JV that occurred in September 2008. As a result of the restatement, net income, as previously reported of $59.5 million and $127.9 million has been restated to $48.8 million and $117.2 million for the three and nine months ended September 30, 2008, respectively. In addition to the December 31, 2007 balance sheet restatement described above, investments in real estate partnerships in the accompanying Consolidated Balance Sheet as of September 30, 2008 were also restated by a reduction of $10.7 million related to the three partial sales to a DIK-JV that occurred in September 2008. There was no effect on the accompanying Consolidated Statement of Operations for the three and nine months ended September 30, 2007 or total operating, investing, and financing activities on the accompanying Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 or 2007.

3. Real Estate Investments

During the nine months ended 2008, the Company did not have any acquisition activity other than through its investments in real estate partnerships.

4. Discontinued Operations

Regency maintains a conservative capital structure to fund its growth program without compromising its investment-grade ratings. This approach is founded on a self-funding business model which utilizes center recycling as a key component and requires ongoing monitoring of each center to ensure that it meets Regency s investment standards. This recycling strategy calls for the Company to sell non-strategic assets and re-deploy the proceeds into new, higher-quality developments and acquisitions that are expected to generate sustainable revenue growth and more attractive returns.

During the three months ended September 30, 2008, the Company sold 100% interest in one property in development and two operating properties for net proceeds of $35.6 million. The combined operating income and gains on sales of these properties and properties classified as held-for-sale were reclassified to discontinued operations. The revenues from properties included in discontinued operations were $1.7 million and $2.7 million for the three months ended

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September 30, 2008 and 2007, respectively. The operating income and gains on sales of properties included in discontinued operations are reported both net of minority interest of exchangeable operating partnership units and income taxes, if the property is sold by RRG, and are summarized as follows for the three months ended September 30, 2008 and 2007, respectively (in thousands):

	For the three months ended			
	2008		2007	
	Operating Income	Gain on sale of Properties	Operating Income	Gain on sale of Properties
Operations and gain	$ 902	3,947	1,222	3,161
Less: Minority interest	6	27	1	21
Less: Income taxes				
Discontinued operations, net	$ 896	3,920	1,221	3,140

During the nine months ended September 30, 2008, the Company sold 100% interest in three properties in development and two operating properties for net proceeds of $55.4 million. The combined operating income and gains on sales of these properties and properties classified as held-for-sale were reclassified to discontinued operations. The revenues from properties included in discontinued operations were $6.0 million and $9.8 million for the nine months ended September 30, 2008 and 2007, respectively. The operating income and gains on sales of properties included in discontinued operations are reported both net of minority interest of exchangeable operating partnership units and income taxes, if the property is sold by RRG, and are summarized as follows for the nine months ended September 30, 2008 and 2007, respectively (in thousands):

	For the nine months ended			
	2008		2007	
	Operating Income	Gain on sale of Properties	Operating Income	Gain on sale of Properties
Operations and gain	$ 2,821	8,771	4,326	22,034
Less: Minority interest	19	59	38	185
Less: Income taxes				
Discontinued operations, net	$ 2,802	8,712	4,288	21,849

5. Investments in Real Estate Partnerships

The Company s investments in real estate partnerships were $387.0 million and $401.9 million at September 30, 2008 and December 31, 2007, respectively (both as restated). Net income or loss from these partnerships, which includes all operating results and gains on sales of properties within the joint ventures, is allocated to the Company in accordance with the respective partnership agreements. Such allocations of net income or loss are recorded in equity in income of investments in real estate partnerships in the accompanying Consolidated Statements of Operations. The difference between the carrying amount of these investments and the underlying equity in net assets was $75.7 million and $58.1 million at September 30, 2008 and December 31, 2007, respectively. This net difference is accreted to equity in income of investments in real

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estate partnerships over the expected useful lives of the properties and other intangible assets which range in lives from 10 to 40 years.

Cash distributions of earnings from operations from investments in real estate partnerships are presented in cash flows from operating activities in the accompanying Consolidated Statements of Cash Flows. Cash distributions from the sale of a property or loan proceeds received from the placement of debt on a property included in investments in real estate partnerships are presented in cash flows from investing activities in the accompanying Consolidated Statements of Cash Flows.

Investments in real estate partnerships are comprised primarily of joint ventures with three unrelated co-investment partners and an open-end real estate fund (Regency Retail Partners or the Fund), as further described below. In addition to the Company earning its pro-rata share of net income or loss in each of the partnerships, these partnerships pay the Company fees for asset management, property management, leasing, investment, and financing services. During the three months ended September 30, 2008 and 2007, the Company recorded fees from these co-investment partnerships of $7.7 million and $10.7 million, respectively. During the nine months ended September 30, 2008 and 2007, the Company recorded fees from these co-investment partnerships of $27.8 million and $24.4 million, respectively.

Investments in real estate partnerships as of September 30, 2008 and December 31, 2007 consist of the following (in thousands):

	Ownership	2008 (as restated)	2007 (as restated)
Macquarie CountryWide-Regency (MCWR I)	25.00%	$ 13,648	15,463
Macquarie CountryWide Direct (MCWR I)	25.00%	4,163	4,061
Macquarie CountryWide-Regency II (MCWR II)	24.95%	200,244	214,450
Macquarie CountryWide-Regency III (MCWR III)	24.95%	622	812
Macquarie CountryWide-Regency-DESCO (MCWR-DESCO)	16.35%	26,609	29,478
Columbia Regency Retail Partners (Columbia)	20.00%	29,190	29,978
Columbia Regency Partners II (Columbia II)	20.00%	12,786	20,326
Cameron Village LLC (Cameron)	30.00%	19,539	20,364
RegCal, LLC (RegCal)	25.00%	15,079	17,113
Regency Retail Partners (the Fund)	20.00%	16,954	13,296
Other investments in real estate partnerships	50.00%	48,175	36,565
Total		$ 387,009	401,906

Investments in real estate partnerships are reported net of deferred gains of $85.2 million and $69.5 million at December 31, 2008 and 2007, respectively. After applying the Restricted Gain Method as described in Note 1(b) and Note 2, cumulative deferred gains in 2007 have increased by $30.5 million to correct gains from partial sales recorded during the periods 2001 to 2005 and have been noted as restated. Cumulative deferred gain amounts related to each co-investment partnership are described below.

The Company co-invests with the Oregon Public Employees Retirement Fund (OPERF) in three co-investment partnerships, two of which the Company has ownership interests of 20% (Columbia and Columbia II) and one in which the Company has an ownership interest of 30% (Cameron). The Company s investment in the three co-investment partnerships with OPERF totals $61.5 million and represents 1.5% of the Company s total assets at September 30, 2008.

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At September 30, 2008, the Columbia co-investment partnerships had total assets of $751.3 million and net income of $9.2 million for the nine months ended and the Company s share of its total assets and net income was $162.4 million and $1.8 million, respectively.

As of September 30, 2008, Columbia owned 14 shopping centers, had total assets of $320.9 million, and net income of $8.1 million for the nine months ended. The Company has a unilateral DIK right to liquidate the partnership; therefore, the Company has applied the Restricted Gain Method to determine the amount of gain that the Company recognizes on property sales to Columbia. During the nine months ended 2008 and 2007, the Company did not sell any properties to Columbia. Since its inception in 2001, the Company has recognized gain of $2.0 million on partial sales to Columbia and deferred gain of $4.3 million.

As of September 30, 2008, Columbia II owned 16 shopping centers, had total assets of $317.6 million, and net income of $1.0 million for the nine months ended. In September 2008, Columbia II purchased one operating property from a third party for a purchase price of $28.5 million and the Company contributed $5.7 million for its proportionate share. The Company has a unilateral DIK right to liquidate the partnership; therefore, the Company has applied the Restricted Gain Method to determine the amount of gain that the Company recognizes on property sales to Columbia II. In September 2008, Columbia II acquired three completed development properties from the Company for a purchase price of $83.4 million, and as a result, the Company recognized gain of $9.1 million and deferred gain of $15.7 million (both as restated). As more thoroughly described in Note 2 to the accompanying consolidated financial statements, the amount of gain previously recorded during September 2008 was subsequently adjusted by a reduction of $10.6 million. During 2007, the Company did not sell any properties to Columbia II. Since the inception of Columbia II in 2004, the Company has recognized gain of $9.1 million on partial sales to Columbia II and deferred gain of $15.7 million (both as restated). During the nine months ended 2008, Columbia II sold one shopping center to an unrelated party for $13.8 million and recognized a gain of approximately $256,000.

As of September 30, 2008, Cameron owned one shopping center, had total assets of $112.8 million, and a net income of approximately $34,000 for the nine months ended. The partnership agreement does not contain any DIK provisions that would require the Company to apply the Restricted Gain Method. Since its inception in 2004, the Company has not sold any properties to Cameron.

The Company co-invests with the California State Teachers Retirement System (CalSTRS) in a joint venture (RegCal) in which the Company has a 25% ownership interest. As of September 30, 2008, RegCal owned seven shopping centers, had total assets of $159.4 million, and net income of $5.6 million for the nine months ended. The Company has a unilateral DIK right to liquidate the partnership; therefore, the Company has applied the Restricted Gain Method to determine the amount of gain that the Company recognizes on property sales to RegCal. During the nine months ended 2008 and 2007, the Company did not sell any properties to RegCal. Since its inception in 2004, the Company has recognized gain of $10.1 million on partial sales to RegCal and deferred gain of $3.4 million. During the nine months ended 2008, RegCal sold one shopping center to an unrelated party for $9.5 million and recognized a gain of $4.2 million.

The Company co-invests with Macquarie CountryWide Trust of Australia (MCW) in five co-investment partnerships two in which the Company has an ownership interest of 25% (collectively MCWR I), two in which the Company has an ownership interest of 24.95% (MCWR II and MCWR III), and one in which the Company has an ownership interest of 16.35% (MCWR-DESCO).

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The Company s investment in the five co-investment partnerships with MCW totals $245.3 million and represents 5.9% of the Company s total assets at September 30, 2008. At September 30, 2008, the five co-investment partnerships had total assets of $3.5 billion and net income of $9.3 million and the Company s share of the co-investment partnerships total assets and net income was $830.3 million and $1.2 million, respectively.

As of September 30, 2008, MCWR I owned 42 shopping centers, had total assets of $599.3 million, and net income of $8.3 million for the nine months ended. The Company has a unilateral DIK right to liquidate the partnership; therefore, the Company has applied the Restricted Gain Method to determine the amount of gain the Company recognizes on property sales to MCWR I. During the nine months ended 2008 and 2007, the Company did not sell any properties to MCWR I. Since its inception in 2001, the Company has recognized gains of $27.5 million on partial sales to MCWR I and deferred gains of $46.9 million.

As of September 30, 2008, MCWR II owned 85 shopping centers, had total assets of $2.4 billion and net income of $5.4 million for the nine months ended. During the nine months ended 2008, MCWR II sold a portfolio of seven shopping centers to an unrelated party for $108.1 million and recognized a gain of $8.9 million. The partnership agreement does not contain any DIK provisions that would require the Company to apply the Restricted Gain Method. During the nine months ended 2008 and 2007, the Company did not sell any properties to MCWR II. Since its inception in 2005, the Company has recognized gain of $2.3 million on partial sales to MCWR II and deferred gain of approximately $766,000. In June 2008, the Company earned additional acquisition fees of $5.2 million (the Contingent Acquisition Fees) deferred from the original acquisition date since the Company achieved the cumulative targeted income levels specified in the Amended and Restated Income Target Agreement between Regency and MCW dated March 22, 2006. The Contingent Acquisition Fees recognized were limited to that percentage of MCWR II, or 75.05%, of the joint venture not owned by the Company and amounted to $3.9 million.

As of September 30, 2008, MCWR III owned four shopping centers, had total assets of $67.6 million, and a net loss of approximately $207,000 for the nine months ended. The partnership agreement does not contain any DIK provisions that would require the Company to apply the Restricted Gain Method. Since its inception in 2005, the Company has recognized gain of $14.1 million on partial sales to MCWR III and deferred gain of $4.7 million.

As of September 30, 2008, MCWR-DESCO owned 32 shopping centers, had total assets of $399.7 million and recorded a net loss of $4.1 million for the nine months ended primarily related to depreciation and amortization expense, but produced positive cash flow from operations. The partnership agreement does not contain any DIK provisions that would require the Company to apply the Restricted Gain Method. Since its inception in 2007, the Company has not sold any properties to MCWR-DESCO.

The Company co-invests with Regency Retail Partners (the Fund), an open-ended, infinite life investment fund in which the Company has an ownership interest of 20%. As of September 30, 2008, the Fund owned nine shopping centers, had total assets of $381.1 million, and net income of $432,918 for the nine months ended. During the nine months ended 2008, the Fund purchased one shopping center from a third party for $93.3 million that included $66.0 million of assumed mortgage debt and the Company contributed $18.7 million for its proportionate share of the purchase price. During September 2008, the Fund also acquired one property in development from the Company for a sales price of $74.5 million and the Company recognized a gain of $4.7 million after excluding the Company s ownership interest. The partnership

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agreement does not contain any DIK provisions that would require the Company to apply the Restricted Gain Method. Since its inception in 2006, the Company has recognized gains of $71.6 million on partial sales to the Fund and deferred gains of $17.9 million.

Summarized financial information for the investments in real estate partnerships on a combined basis, is as follows (in thousands):

	September 30, 2008	December 31, 2007
Investment in real estate, net	$ 4,548,292	4,422,533
Acquired lease intangible assets, net	181,029	197,495
Other assets	149,939	147,525
Total assets	4,879,260	4,767,553
Notes payable	2,824,879	2,719,473
Acquired lease intangible liabilities, net	91,136	86,031
Other liabilities	95,111	83,734
Members capital	1,868,134	1,878,315
Total liabilities and equity	$ 4,879,260	4,767,553

Investments in real estate partnerships had notes payable of $2.8 billion and $2.7 billion as of September 30, 2008 and December 31, 2007, respectively, and the Company s proportionate share of these loans was $670.5 million and $653.3 million, respectively. The loans are primarily non-recourse, but for those that are guaranteed by a joint venture, Regency s liability does not extend beyond its ownership percentage of the joint venture.

As of September 30, 2008, scheduled principal repayments on notes payable of the investments in real estate partnerships were as follows (in thousands):

Scheduled Principal Payments by Year:	Scheduled Principal Payments	Term Loan Maturities	Total Payments	Regency s Pro-Rata Share
2008	$ 1,244	67,867	69,111	15,268
2009	4,824	227,615	232,439	56,929
2010	4,569	773,860	778,429	183,368
2011	3,632	506,846	510,478	126,401
2012	3,553	408,203	411,756	91,025
Beyond 5 Years	30,436	784,359	814,795	195,927
Unamortized debt premiums, net		7,871	7,871	1,571
Total	$ 48,258	2,776,621	2,824,879	670,489

The revenues and expenses for the investments in real estate partnerships on a combined basis for the three and nine months ended September 30, 2008 and 2007, respectively, are summarized as follows (in thousands):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Total revenues	$ 120,968	114,895	363,667	331,316
Operating expenses:				
Depreciation and amortization	44,638	45,467	135,803	131,250
Operating and maintenance	17,756	15,356	52,055	46,386
General and administrative	2,014	1,974	7,190	7,723
Real estate taxes	15,293	13,495	46,168	38,739
Total operating expenses	79,701	76,292	241,216	224,098
Other expense (income):				
Interest expense, net	36,208	34,513	109,137	100,106
Loss (gain) on sale of real estate	15	(2,642)	(13,487)	(10,555)
Other expense	35	35	104	103
Total other expense	36,258	31,906	95,754	89,654
Net income	$ 5,009	6,697	26,697	17,564

6. Notes Receivable

The Company had notes receivable outstanding of $55.3 million and $44.5 million at September 30, 2008 and December 31, 2007, respectively. The notes receivable have fixed interest rates ranging from 6.7% to 9.0% and maturity dates through November 2014. As discussed previously, the Company provided a $39.6 million note receivable, maturing on December 31, 2008 to Columbia, in order to facilitate the Company s sale of a shopping center. On January 28, 2008, the Company received $12.1 million from the Fund as repayment of a loan with an original maturity date of March 31, 2008 which was provided to facilitate the Company s sale of a shopping center in December 2007. During the three months ended September 30, 2008, the Company recorded a provision for loss of $1.1 million related to a $3.6 million note receivable issued in 2002 to finance the sale of a shopping center and as a result of a negotiated payoff, $2.5 million was collected for repayment.

7. Acquired Lease Intangibles

The Company had net acquired lease intangible assets of $13.7 million and $17.2 million at September 30, 2008 and December 31, 2007, respectively, of which $13.2 million and $16.7 million, respectively relates to in-place leases. These in-place leases had a remaining weighted average amortization period of 7.3 years and the aggregate amortization expense recorded for these in-place leases was $1.3 million and $1.6 million for the three months ended September 30, 2008 and 2007, respectively, and $3.4 million and $3.1 million for the nine months ended September 30, 2008 and 2007, respectively. The Company had net above-market lease intangible assets of $468,521 and $554,849 at September 30, 2008 and December 31, 2007, respectively. The remaining weighted average amortization period was 4.5 years and the

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aggregate amortization expense recorded as a reduction to minimum rent for these above-market leases was $27,398 and $31,563 for the three months ended September 30, 2008 and 2007, respectively, and $86,328 and $85,165 for the nine months ended September 30, 2008 and 2007, respectively.

The Company had net acquired lease intangible liabilities of $8.4 million and $10.4 million as of September 30, 2008 and December 31, 2007, respectively. The remaining weighted average accretion period is 7.1 years and the aggregate amount accreted as an increase to minimum rent for these below-market rents was $558,676 and $636,350 for the three months ended September 30, 2008 and 2007, respectively, and $1.9 million and $1.4 million for the nine months ended September 30, 2008 and 2007, respectively.

8. Notes Payable and Unsecured Credit Facilities

The Company s outstanding debt at September 30, 2008 and December 31, 2007 consists of the following (in thousands):

	2008	2007
Notes payable:		
Fixed rate mortgage loans	$ 236,433	196,915
Variable rate mortgage loans	5,380	5,821
Fixed rate unsecured loans	1,597,527	1,597,239
Total notes payable	1,839,340	1,799,975
Unsecured credit facilities	297,667	208,000
Total	$ 2,137,007	2,007,975

On June 5, 2008, the Company placed a $62.5 million mortgage loan on a consolidated joint venture. The loan has a nine-year term and is i