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.

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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Regency Centers Corporation

Notes to Consolidated Financial Statements

September 30, 2008

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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