REGENCY CENTERS CORP
Form 10-Q
May 09, 2007
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

-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)

Former Address

121 West Forsyth Street, Suite 200

Jacksonville, Florida 32202

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 May 7, 2007, there were 69,477,582 shares outstanding of the Registrant s common stock.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REGENCY CENTERS CORPORATION

Consolidated Balance Sheets

March 31, 2007 and December 31, 2006

(in thousands, except share data)

	2007 (unaudited)	2006
Assets		
Real estate investments at cost:		
Land	$ 843,384	862,851
Buildings and improvements	1,923,384	1,963,634
	2,766,768	2,826,485
Less: accumulated depreciation	441,432	427,389
	2,325,336	2,399,096
Properties in development, net	747,163	615,450
Operating properties held for sale, net	74,695	25,608
Investments in real estate partnerships	435,251	434,090
Net real estate investments	3,582,445	3,474,244
Cash and cash equivalents	29,164	34,046
Notes receivable	19,979	19,988
Tenant receivables, net of allowance for uncollectible accounts of $3,871 and $3,961 at March 31, 2007 and December 31, 2006, respectively	59,631	67,162
Deferred costs, less accumulated amortization of $38,006 and $36,227 at March 31, 2007 and December 31, 2006, respectively	43,880	40,989
Acquired lease intangible assets, less accumulated amortization of $11,257 and $10,511 at March 31, 2007 and December 31, 2006, respectively	11,569	12,315
Other assets	30,266	23,041
	$ 3,776,934	3,671,785
Liabilities and Stockholders Equity		
Liabilities:		
Notes payable	$ 1,438,932	1,454,386
Unsecured line of credit	236,000	121,000
Accounts payable and other liabilities	144,865	140,940
Acquired lease intangible liabilities, net	7,344	7,729
Tenants security and escrow deposits	10,561	10,517
Total liabilities	1,837,702	1,734,572

Preferred units	49,158	49,158
Exchangeable operating partnership units	15,274	16,941
Limited partners interest in consolidated partnerships	14,613	17,797
Total minority interest	79,045	83,896
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value per share, 30,000,000 shares authorized; 3,000,000 Series 5 and 800,000 Series 3 and 4 shares issued and outstanding at both March 31, 2007 and December 31, 2006 with liquidation preferences of $25 and $250 per share, respectively	275,000	275,000
Common stock $.01 par value per share, 150,000,000 shares authorized; 74,701,025 and 74,431,787 shares issued at March 31, 2007 and December 31, 2006, respectively	747	744
Treasury stock at cost	(111,414)	(111,414)
Additional paid in capital	1,742,188	1,744,201
Accumulated other comprehensive loss	(10,799)	(13,317)
Distributions in excess of net income	(35,535)	(41,897)
Total stockholders equity	1,860,187	1,853,317
	$ 3,776,934	3,671,785

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statements of Operations

For the three months ended March 31, 2007 and 2006

(in thousands, except per share data)

(unaudited)

	2007	2006
Revenues:		
Minimum rent	$ 77,456	71,640
Percentage rent	735	438
Recoveries from tenants	22,143	20,472
Management, acquisition and other fees	6,381	7,260
Total revenues	106,715	99,810
Operating expenses:		
Depreciation and amortization	21,518	20,223
Operating and maintenance	13,106	11,694
General and administrative	12,297	10,803
Real estate taxes	11,374	10,107
Other expenses	460	3,658
Total operating expenses	58,755	56,485
Other expense (income):		
Interest expense, net of interest income of $719 and $1,591 in 2007 and 2006, respectively	19,389	19,218
Gain on sale of operating properties and properties in development	(25,645)	(15,680)
Total other expense (income)	(6,256)	3,538
Income before minority interests and equity in income of investments in real estate partnerships	54,216	39,787
Minority interest of preferred units	(931)	(931)
Minority interest of exchangeable operating partnership units	(540)	(641)
Minority interest of limited partners	(278)	(511)
Equity in income of investments in real estate partnerships	3,788	755
Income from continuing operations	56,255	38,459
Discontinued operations, net:		
Operating income from discontinued operations	733	1,975
Gain on sale of operating properties and properties in development		30,341
Income from discontinued operations	733	32,316
Net income	56,988	70,775

Preferred stock dividends	(4,919)	(4,919)
Net income for common stockholders	$ 52,069	65,856
Income per common share basic:		
Continuing operations	$ 0.74	0.49
Discontinued operations	0.01	0.48
Net income for common stockholders per share	$ 0.75	0.97
Income per common share diluted:		
Continuing operations	$ 0.74	0.49
Discontinued operations	0.01	0.48
Net income for common stockholders per share	$ 0.75	0.97

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 three months ended March 31, 2007

(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, 2006	$ 275,000	744	(111,414)	1,744,201	(13,317)	(41,897)	1,853,317
Comprehensive Income:							
Net income						56,988	56,988
Amortization of loss on derivative instruments					327		327
Change in fair value of derivative instruments					2,191		2,191
Total comprehensive income							59,506
Restricted stock issued, net of amortization				4,675			4,675
Common stock redeemed for taxes withheld for stock based compensation, net		2		(8,468)			(8,466)
Common stock issued for partnership units exchanged		1		2,786			2,787
Reallocation of minority interest				(1,006)			(1,006)
Cash dividends declared:							
Preferred stock						(4,919)	(4,919)
Common stock ($0.66 per share)						(45,707)	(45,707)
Balance at March 31, 2007	$ 275,000	747	(111,414)	1,742,188	(10,799)	(35,535)	1,860,187

See accompanying notes to consolidated financial statements.

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REGENCY CENTERS CORPORATION

Consolidated Statements of Cash Flows

For the three months ended March 31, 2007 and 2006

(in thousands)

(unaudited)

	2007	2006
Cash flows from operating activities:		
Net income	$ 56,988	70,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,518	21,146
Deferred loan cost and debt premium amortization	711	823
Stock based compensation	5,034	4,521
Minority interest of preferred units	931	931
Minority interest of exchangeable operating partnership units	547	1,180
Minority interest of limited partners	278	511
Equity in income of investments in real estate partnerships	(3,788)	(755)
Net gain on sale of properties	(25,645)	(46,527)
Distribution of earnings from operations of investments in real estate partnerships	8,055	8,730
Changes in assets and liabilities:		
Tenant receivables	7,531	4,844
Deferred leasing costs	(1,990)	(1,935)
Other assets	(8,249)	(4,214)
Accounts payable and other liabilities	(24,148)	(29,974)
Above and below market lease intangibles, net	(357)	(238)
Tenants security and escrow deposits	44	(70)
Net cash provided by operating activities	37,460	29,748
Cash flows from investing activities:		
Development of real estate including land acquired	(158,056)	(77,150)
Proceeds from sale of real estate investments	65,734	194,467
Repayment of notes receivable, net	9	14,589
Investments in real estate partnerships	(3,808)	(4,791)
Distributions received from investments in real estate partnerships	2,651	
Net cash (used in) provided by investing activities	(93,470)	127,115
Cash flows from financing activities:		
Net proceeds from common stock issuance	2,332	1,637
(Distributions to) contributions from limited partners in consolidated partnerships	(3,535)	205
Distributions to exchangeable operating partnership unit holders	(432)	(715)
Distributions to preferred unit holders		(931)
Dividends paid to common stockholders	(44,638)	(39,596)
Dividends paid to preferred stockholders		(4,919)
Proceeds from (repayment of) unsecured line of credit, net	115,000	(54,000)
Repayment of notes payable	(14,243)	(11,790)
Scheduled principal payments	(1,094)	(1,156)
Deferred loan costs	(2,262)	

Net cash provided by (used in) financing activities	51,128	(111,265)
Net (decrease) increase in cash and cash equivalents	(4,882)	45,598
Cash and cash equivalents at beginning of the period	34,046	42,458
Cash and cash equivalents at end of the period	$ 29,164	88,056

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REGENCY CENTERS CORPORATION

Consolidated Statements of Cash Flows

For the three months ended March 31, 2007 and 2006

(in thousands)

(unaudited)

	2007	2006
Supplemental disclosure of cash flow information cash paid for interest (net of capitalized interest of $7,134 and $5,145 in 2007 and 2006, respectively)	$ 32,928	34,023
Supplemental disclosure of non-cash transactions:		
Common stock issued for partnership units exchanged	$ 2,787	4,615
Real estate contributed as investments in real estate partnerships	$ 3,518	
Common stock issued for dividend reinvestment plan	$ 1,069	966
Notes receivable taken in connection with out-parcel sales	$	2,401
Change in fair value of derivative instrument	$ 2,191	2,814

See accompanying notes to consolidated financial statements.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

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 March 31, 2007, the Partnership directly owned 220 retail shopping centers and held partial interests in an additional 189 retail shopping centers through investments in joint ventures.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Partnership and 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 have been eliminated in the consolidated financial statements.

Investments in joint ventures not controlled by the Company (Unconsolidated Joint Ventures) are accounted for under the equity method. The Company has evaluated its investment in the Unconsolidated Joint Ventures and has concluded that they are not variable interest entities as defined in the Financial Accounting Standards Board (FASB) Interpretation No. 46(R) Consolidation of Variable Interest Entities (FIN 46R). Further, the venture partners in the Unconsolidated Joint Ventures have significant ownership rights, including approval over operating budgets and strategic plans, capital spending, sale or financing, and admission of new partners; therefore, the Company has concluded that the equity method of accounting is appropriate for these interests as they do not require consolidation under EITF 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 . Under the equity method of accounting, investments in the Unconsolidated Joint Ventures are initially recorded at cost, and subsequently increased for additional contributions and allocations of income and reduced for distributions received and allocation of losses. These investments are included in the consolidated financial statements as Investments in real estate partnerships.

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.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(a) Organization and Principles of Consolidation (continued)

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 March 31, 2007, the Company owned approximately 99% or 69,210,414 Partnership Units of the total 69,877,308 Partnership Units outstanding. Each outstanding common Partnership Unit not owned by the Company is exchangeable for one share of Regency common stock. The Company revalues the minority interest associated with the Units each quarter to maintain a proportional relationship between the book value of equity associated with common stockholders relative to that of the Unit holders since both have equivalent rights and 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 partners 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. As part of the leasing process, the Company may provide the lessee with an allowance for the construction of leasehold improvements. Leasehold improvements are capitalized as part of the building and 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, and 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 a tenant allowance is made on a case-by-case basis, considering the facts and circumstances of the individual tenant lease. Lease revenue recognition 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.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(b) Revenues (continued)

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.

The Company accounts for profit recognition on sales of real estate in accordance with Statement of Financial Accounting Standards (SFAS) Statement No. 66, Accounting for Sales of Real Estate. In summary, profits from sales will not be recognized by the Company unless a sale has been 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 has been engaged by joint ventures under agreements to provide asset management, property management; and leasing, investing and financing services for such ventures shopping centers. The fees are market based and 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 consolidated balance sheets. 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. If the Company determines that the development of a particular shopping center is no longer probable, any related pre-development costs previously incurred are immediately expensed. At March 31, 2007 and December 31, 2006, the Company had capitalized pre-development costs of $23.9 million and $23.3 million, respectively of which $9.4 million and $10.0 million, respectively were refundable deposits.

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.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(c) Real Estate Investments (continued)

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 minimum lease term for tenant improvements, and three to seven years for furniture and equipment.

The Company and the unconsolidated joint ventures 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 allocating 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 of the respective leases.

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 the 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. 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.

The Company allocates no value to customer relationship intangibles if it has pre-existing business relationships with the major retailers in the acquired property since they provide no incremental value over the Company s existing relationships.

The Company follows 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 as held-for-sale when it 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. Operating properties held-for-sale are carried at the lower of cost or fair value less costs to sell. Depreciation and amortization are suspended during the held-for-sale period.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(c) Real Estate Investments (continued)

In accordance with Statement 144, when the Company sells a property or classifies a property as held for sale and will not have continuing involvement or significant cash flows after disposition, the operations and cash flows of the property are eliminated from continuing operations and 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. Once classified in discontinued operations, these properties are eliminated from ongoing operations. Prior periods are also represented 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 it will have continuing involvement, the operations and gains on sales are included in income from continuing operations.

The Company reviews its real estate portfolio 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 future discounted cash flows, ii) determining resale values by market, 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. In the event that the carrying amount of a property is not recoverable and exceeds its fair value, the Company will write down the asset to fair value for held-and-used assets and to fair value less costs to sell for held-for-sale assets. If there was an impairment recorded on properties subsequently sold to third parties it would be included in operating income from discontinued operations.

(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.

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.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(d) Income Taxes (continued)

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 three months ended March 31, 2007, the Company recorded a tax benefit of $1.3 million as compared to a provision of $3.0 million for the same period in the prior year.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. 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 is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company adopted this Interpretation effective January 1, 2007 and the adoption of FIN 48 did not have a material effect on the Company s consolidated financial statements.

(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 $34.4 million and $33.3 million at March 31, 2007 and December 31, 2006, respectively. Deferred loan costs consist of initial direct and incremental costs associated with financing activities. Net deferred loan costs were $9.5 million and $7.7 million at March 31, 2007 and December 31, 2006, respectively.

(f) Earnings per Share and Treasury Stock

Basic net income per share of common stock is computed based upon the weighted average number of common shares outstanding during the period. Diluted net income per share also includes common share equivalents for stock options, restricted stock and exchangeable operating partnership units, if dilutive. See note 11 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 consolidated statements of stockholders equity and comprehensive income (loss). Outstanding shares do not include treasury shares.

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Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(g) Cash and Cash Equivalents

Any instruments which have an original maturity of 90 days or less when purchased are considered cash equivalents. Cash distributions of normal operating earnings from investments in real estate partnerships are included in cash flows from operations in the consolidated statements of cash flows. Cash distributions from the sale or loan proceeds from the placement of debt on a property included in investments in real estate partnerships is included in cash flows from investing activities in the consolidated statements of cash flows.

(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 comparable number of common units from the Partnership including stock options. Regency is committed to contribute to the Partnership all proceeds from the exercise of stock options or other stock-based awards granted under Regency s Long-Term Omnibus 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 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)). The Company early adopted Statement 123(R) effective January 1, 2005 by applying the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. See Note 10 for further discussion.

Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

(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 7% or more of revenue and none of the shopping centers are located outside the United States.

(k) Derivative Financial Instruments

The Company adopted SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (Statement 133) as amended by SFAS No. 149. Statement 133 requires that all derivative instruments, whether designated in hedging relationships or not, be recorded on the balance sheet at their fair value. Gains or losses resulting from changes in the 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.

Statement 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in 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.

Regency Centers Corporation

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March 31, 2007

(k) Derivative Financial Instruments (continued)

In assessing the hedge, 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 Note 8 for further discussion.

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

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (Statement 150). Statement 150 affects the accounting for certain financial instruments, 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. Although Statement 150 was originally effective July 1, 2003, the FASB has indefinitely deferred certain provisions related to classification and measurement requirements for mandatory redeemable financial instruments that become subject to Statement 150 solely as a result of consolidation, including minority interests of entities with specified termination dates.

At March 31, 2007, the Company held a majority interest in three consolidated entities with specified termination dates through 2049. The minority owners interests in these entities will be settled upon termination by distribution or transfer of either cash or specific assets of the underlying entities. The estimated fair value of minority interests in entities with specified termination dates was approximately $9.0 million at March 31, 2007. The related carrying value is $1.7 million and $1.3 million as of March 31, 2007 and December 31, 2006, respectively which is included within limited partners interest in consolidated partnerships in the accompanying consolidated balance sheet. The Company has no other financial instruments that are affected by Statement 150.

(m) Recent Accounting Pronouncements

In February 2007, the FASB Issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . 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. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, although early application is allowed. The Company does not believe that the adoption of Statement 159 will have a material effect on its consolidated financial statements; however, the Company will continue to evaluate the application of this Statement.

In September 2006, the FASB issued Statement No. 157 Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to accounting pronouncements that require or permit fair value measurements, except for share-based payments transactions under FASB Statement No. 123(R). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As Statement No. 157 does not require any new fair value measurements or remeasurements of previously computed fair values, the Company does not believe adoption of this Statement will have a material effect on its consolidated financial statements.

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March 31, 2007

(n) Reclassifications

Certain reclassifications have been made to the 2006 amounts to conform to classifications adopted in 2007.

2. Real Estate Investments

During 2007, the Company s acquisition activity was through its joint ventures discussed further in Note 4.

3. Discontinued Operations

Regency maintains a conservative capital structure to fund its growth programs 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 properties that do not measure up to its standards 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 March 31, 2007, the Company had four properties classified as held for sale and their revenues of $1.4 million were reclassified to operating income from discontinued operations. The revenues from these four properties, including properties sold in 2006 were $4.7 million for the three months ended March 31, 2006. The operating income and gains from properties included in discontinued operations are reported net of minority interest of exchangeable operating partnership units and income taxes, if the property is sold by RRG, as follows (in thousands):

	For the three months ended			
	March 31, 2007		March 31, 2006	
	Operating Income	Gain on sale of properties	Operating Income	Gain on sale of Properties
Operations and gain	$ 740		2,008	30,847
Less: Minority interest	7		33	506
Discontinued operations, net	$ 733		1,975	30,341

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Regency Centers Corporation

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March 31, 2007

4. Investments in Real Estate Partnerships

The Company accounts for all investments in which it owns 50% or less and does not have a controlling financial interest using the equity method. The Company has determined that these investments are not variable interest entities as defined in FIN 46(R) and do not require consolidation under EITF 04-5 or SOP 78-9, and therefore are subject to the voting interest model in determining its basis of accounting. Major decisions, including property acquisitions and dispositions, financings, annual budgets and dissolution of the ventures are subject to the approval of all partners. The Company s combined investment in these partnerships was $435.3 million and $434.1 million at March 31, 2007 and December 31, 2006, respectively. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized or accreted to equity in income (loss) of investments in real estate partnerships over the expected useful lives of the properties and other intangible assets which range in lives from 10 to 40 years. Net income from these partnerships, which includes all operating results, as well as 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 (loss) of investments in real estate partnerships in the accompanying consolidated statements of operations.

Investments in real estate partnerships are comprised primarily of joint ventures with three unrelated co-investment partners and a recently formed 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 (loss) in each of the partnerships, these partnerships pay the Company fees for asset management, property management, investment and financing services. During the three months ended March 31, 2007 and 2006, the Company received fees from these joint ventures of $6.4 million and $7.2 million, respectively.

The Company co-invests with the Oregon Public Employees Retirement Fund in three joint ventures (collectively Columbia) in which the Company has ownership interests of 20% or 30%. As of March 31, 2007, Columbia owned 20 shopping centers, had total assets of $562.0 million, and net income of $3.1 million. The Company s share of Columbia s total assets and net income was $124.7 million and $631,280 respectively.

The Company co-invests with the California State Teachers Retirement System (CalSTRS) in a joint venture (RegCal) in which the Company has an ownership interest of 25%. As of March 31, 2007, RegCal owned nine shopping centers, had total assets of $181.7 million, and net income of $419,010. The Company s share of RegCal s total assets and net income was $45.4 million and $128,704, respectively.

Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

4. Investments in Real Estate Partnerships (continued)

The Company co-invests with Macquarie CountryWide Trust of Australia (MCW) in four joint ventures, two in which the Company has an ownership interest of 25% (collectively, MCWR I), and two in which it has an ownership interest of 24.95% (collectively, MCWR II).

As of March 31, 2007, MCWR I owned 50 shopping centers, had total assets of $733.2 million, and net income of $10.3 million. Regency s share of MCWR I s total assets and net income was $183.4 million and $3.9 million, respectively. During 2007 MCWR I purchased one shopping center from a third party for $23.0 million. The Company contributed $2.2 million for its proportionate share of the purchase price, which was net of $10.8 million of assumed mortgage debt by MCWR I. During 2007, MCWR I sold one shopping center to an unrelated party for $33.4 million for a gain of $7.9 million.

On June 1, 2005, MCWR II closed on the acquisition of a retail shopping center portfolio (the First Washington Portfolio) for a purchase price of approximately $2.8 billion, including the assumption of approximately $68.6 million of mortgage debt and the issuance of approximately $1.6 billion of new mortgage loans on the properties acquired. The First Washington Portfolio acquisition was accounted for as a purchase business combination by MCWR II. At December 31, 2005, MCWR II was owned 64.95% by an affiliate of MCW, 34.95% by Regency and 0.1% by Macquarie-Regency Management, LLC (US Manager). US Manager is owned 50% by Regency and 50% by an affiliate of Macquarie Bank Limited. On January 13, 2006, the Company sold a portion of its investment in MCWR II to MCW which reduced its ownership interest from 35% to 24.95% for net cash of $113.2 million which is reflected in proceeds from sale of real estate investments in the consolidated statements of cash flows. The proceeds from the sale were used to reduce the unsecured line of credit.

Regency has the ability to receive additional acquisition fees of approximately $5.2 million (the Contingent Acquisition Fees) deferred from the original acquisition date that are subject to achieving cumulative targeted income levels through 2008. The Contingent Acquisition Fees will only be recognized if earned, and the recognition of income will be limited to that percentage of MCWR II, or 75.05%, of the joint venture not owned by the Company.

Regency Centers Corporation

Notes to Consolidated Financial Statements

March 31, 2007

4. Investments in Real Estate Partnerships (continued)

As of March 31, 2007, MCWR II owned 97 shopping centers, had total assets of $2.7 billion and recorded a net loss of $5.7 million. Regency s share of MCWR II s total assets and net loss was $668.6 million and $1.4 million, respectively. As a result of the significant amount of depreciation and amortization expense recorded by MCWR II in connection with the acquisition of the First Washington Portfolio, the joint venture may continue to report a net loss in future years, but is expected to produce positive cash flow from operations.

In December 2006, Regency formed Regency Retail Partners (the Fund), an open-end, infinite-life investment fund in which its ownership interest is 26.8%. During the first quarter, the Company reduced its ownership interest to 20% with the admission of additional partners into the Fund and recognized a gain of $2.2 million that had previously been deferred. The Fund will have the exclusive right to acquire all Regency-developed large format community centers upon stabilization that meet the Fund s investment criteria.

As of March 31, 2007, the Fund owned four shopping centers, had total assets of $140.2 million, and recorded net income of $109,587. Regency s share of the Fund s total assets and net income was $27.9 million and $40,500, respectively. During 2007, the Fund acquired two community shopping centers from the Company for a sales price of $61.0 million, for which the Company received cash of $57.6 million for the Fund s proportionate share and recognized a gain of $22.1 million.

Recognition of gains from sales to joint ventures is recorded on only that portion of the sales not attributable to the Company s ownership interest. The gains, operations and cash flows are not recorded as discontinued operations because of Regency s substantial continuing involvement in these shopping centers. Columbia, RegCal, and the joint ventures with MCW and the Fund intend to continue to acquire retail shopping centers, some of which they may acquire directly from the Company. For those properties acquired from third parties, the Company is required to contribute its pro-rata share of the purchase price to the partnerships.

Our investments in real estate partnerships as of March 31, 2007 and December 31, 2006 consist of the following (in thousands):

	Ownership	2007	2006
Macquarie CountryWide-Regency (MCWR I)	25.00%	$ 62,789	60,651
Macquarie CountryWide Direct (MCWR I)	25.00%	6,705	6,822
Macquarie CountryWide-Regency II (MCWR II)	24.95%	229,548	234,378
Macquarie CountryWide-Regency III (MCWR II)	24.95%	1,087	1,140
Columbia Regency Retail Partners (Columbia)	20.00%	35,635	36,096
Cameron Village LLC (Columbia)	30.00%	20,876	20,826
Columbia Regency Partners II (Columbia)	20.00%	11,814	11,516
RegCal, LLC (RegCal)	25.00%	18,280	18,514
Regency Retail Partners (the Fund) [(1)]	20.00%	8,710	5,139
Other investments in real estate partnerships	50.00%	39,807	39,008
Total		$ 435,251	434,090

(1) At December 31, 2006, Regency s ownership interest in the Fund was 26.8%.

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March 31, 2007

4. Investments in Real Estate Partnerships (continued)

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

	March 31, 2007	December 31, 2006
Investment in real estate, net	$ 4,068,841	4,029,389
Acquired lease intangible assets, net	192,451	200,835
Other assets	149,442	135,451
Total assets	4,410,734	4,365,675
Notes payable	2,469,787	2,435,229
Acquired lease intangible liabilities, net	72,104	69,336
Other liabilities	68,261	70,295
Members capital	1,800,582	1,790,815
Total liabilities and equity	$ 4,410,734	4,365,675

Unconsolidated investments in real estate partnerships had notes payable of $2.5 billion and $2.4 billion as of March 31, 2007 and December 31, 2006, respectively and the Company s proportionate share of these loans was $614.5 million and $610.8 million, respectively. The loans are primarily non-recourse, but for those that are guaranteed by a joint venture, Regency s guarantee does not extend beyond its ownership percentage of the joint venture.

The revenues and expenses for the unconsolidated investments on a combined basis are summarized as follows for the three months ended March 31, 2007 and 2006 (in thousands):

	2007	2006
Total revenues	$ 108,012	101,463
Operating expenses:		
Depreciation and amortization		