WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
May 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarter ended March 31, 2013

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 1-9876

Weingarten Realty Investors
(Exact name of registrant as specified in its charter)

TEXAS	74-1464203
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2600 Citadel Plaza Drive P.O. Box 924133 Houston, Texas	77292-4133
(Address of principal executive offices)	(Zip Code)

(713) 866-6000
(Registrant's telephone number)

(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 ý NO¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO ¨

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a 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 ý

As of April 30, 2013, there were 121,813,812 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

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PART I-FINANCIAL INFORMATION
ITEM 1. Financial Statements
WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Rentals, net	$129,023	$116,103
Other	2,658	2,699
Total	131,681	118,802
Expenses:		
Depreciation and amortization	39,719	33,231
Operating	25,356	22,419
Real estate taxes, net	15,202	13,810
Impairment loss	56	6,852
General and administrative	6,667	8,307
Total	87,000	84,619
Operating Income	44,681	34,183
Interest Expense, net	(17,952)	(31,297)
Interest and Other Income, net	1,826	2,386
Gain on Sale of Real Estate Joint Venture and Partnership Interests	11,509	5,562
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	4,613	4,075
Benefit for Income Taxes	153	22
Income from Continuing Operations	44,830	14,931
Operating (Loss) Income from Discontinued Operations	(155)	3,633
Gain on Sale of Property from Discontinued Operations	—	3,634
(Loss) Income from Discontinued Operations	(155)	7,267
Gain on Sale of Property	142	440
Net Income	44,817	22,638
Less: Net Income Attributable to Noncontrolling Interests	(1,467)	(1,441)
Net Income Adjusted for Noncontrolling Interests	43,350	21,197
Dividends on Preferred Shares	(7,440)	(8,869)
Redemption Costs of Preferred Shares	(2,242)	—
Net Income Attributable to Common Shareholders	$33,668	$12,328
Earnings Per Common Share - Basic:		
Income from continuing operations attributable to common shareholders	$0.28	$0.04
(Loss) income from discontinued operations	—	0.06
Net income attributable to common shareholders	$0.28	$0.10
Earnings Per Common Share - Diluted:		
Income from continuing operations attributable to common shareholders	$0.28	$0.04
(Loss) income from discontinued operations	—	0.06
Net income attributable to common shareholders	$0.28	$0.10
Comprehensive Income:		
Net Income	$44,817	$22,638
Other Comprehensive Income (Loss):		
Net unrealized (loss) gain on derivatives	(2,107)	16

Amortization of loss on derivatives	656	659
Retirement liability adjustment	365	—
Total	(1,086)	675
Comprehensive Income	43,731	23,313
Comprehensive Income Attributable to Noncontrolling Interests	(1,467)	(1,441)
Comprehensive Income Adjusted for Noncontrolling Interests	$42,264	$21,872

See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	March 31, 2013	December 31, 2012
ASSETS		
Property	$4,425,127	$4,399,850
Accumulated Depreciation	(1,073,361)	(1,040,839)
Property, net *	3,351,766	3,359,011
Investment in Real Estate Joint Ventures and Partnerships, net	279,384	289,049
Total	3,631,150	3,648,060
Notes Receivable from Real Estate Joint Ventures and Partnerships	89,013	89,776
Unamortized Debt and Lease Costs, net	137,646	135,783
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $11,904 in 2013 and $12,127 in 2012) *	70,428	79,540
Cash and Cash Equivalents *	54,800	19,604
Restricted Deposits and Mortgage Escrows	43,535	44,096
Other, net	164,396	167,925
Total Assets	$4,190,968	$4,184,784
LIABILITIES AND EQUITY		
Debt, net *	$2,323,620	$2,204,030
Accounts Payable and Accrued Expenses	87,947	119,699
Other, net	111,661	120,900
Total Liabilities	2,523,228	2,444,629
Commitments and Contingencies	—	—
Equity:		
Shareholders’ Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued; no shares outstanding in 2013 and 100 shares outstanding in 2012; liquidation preference $75,000 in 2012	—	3
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 140 shares issued and outstanding in 2013 and 2012; liquidation preference $350,000	4	4
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 275,000; shares issued and outstanding: 121,758 in 2013 and 121,505 in 2012	3,671	3,663
Additional Paid-In Capital	1,868,215	1,934,183
Net Income Less Than Accumulated Dividends	(339,439)	(335,980)
Accumulated Other Comprehensive Loss	(25,829)	(24,743)
Total Shareholders’ Equity	1,506,622	1,577,130
Noncontrolling Interests	161,118	163,025
Total Equity	1,667,740	1,740,155
Total Liabilities and Equity	$4,190,968	$4,184,784
* Consolidated Variable Interest Entities' Assets and Liabilities included in the above balances (See Note 17):		
Property, net	$224,982	$226,685
Accrued Rent and Accounts Receivable, net	6,504	8,095

Cash and Cash Equivalents	10,317	11,706
Debt, net	275,671	276,420

See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities:		
Net Income	$44,817	$22,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,731	38,850
Amortization of deferred financing costs, net	(9,300)	264
Impairment loss	292	10,023
Equity in earnings of real estate joint ventures and partnerships, net	(4,613)	(4,075)
Gain on sale of real estate joint venture and partnership interests	(11,509)	(5,562)
Gain on sale of property	(142)	(4,074)
Distributions of income from real estate joint ventures and partnerships, net	976	601
Changes in accrued rent and accounts receivable, net	8,256	16,703
Changes in other assets, net	(3,234)	(5,503)
Changes in accounts payable, accrued expenses and other liabilities, net	(30,232)	(27,524)
Other, net	2,599	2,771
Net cash provided by operating activities	37,641	45,112
Cash Flows from Investing Activities:		
Acquisition of real estate and land	(18,880)	(20,135)
Development and capital improvements	(14,101)	(18,633)
Proceeds from sale of property and real estate equity investments, net	3,914	13,629
Change in restricted deposits and mortgage escrows	561	1,106
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	—	(79)
Collections	3,937	59,897
Real estate joint ventures and partnerships:		
Investments	(240)	(5,518)
Distributions of capital	14,393	3,347
Net cash (used in) provided by investing activities	(10,416)	33,614
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	298,584	—
Principal payments of debt	(101,643)	(31,204)
Changes in unsecured credit facilities	(66,000)	3,500
Proceeds from issuance of common shares of beneficial interest, net	1,887	458
Repurchase of preferred shares of beneficial interest	(75,000)	—
Common and preferred dividends paid	(44,122)	(43,333)
Debt issuance costs paid	(2,100)	(70)
Distributions to noncontrolling interests	(3,858)	(3,756)
Other, net	223	61
Net cash provided by (used in) financing activities	7,971	(74,344)
Net increase in cash and cash equivalents	35,196	4,382
Cash and cash equivalents at January 1	19,604	13,642
Cash and cash equivalents at March 31	$54,800	$18,024

Interest paid during the period (net of amount capitalized of $569 and $783, respectively)	$35,794	$40,836
Income taxes paid during the period	$—	$—

See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands, except per share amounts)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Additional Paid-In Capital	Net Income Less Than Accumulated Dividends	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2012	$8	$3,641	$1,983,978	$ (304,504)	$ (27,743)	$ 168,202	$1,823,582
Net income				21,197		1,441	22,638
Shares issued under benefit plans		8	4,707				4,715
Dividends declared – common shares [1]				(35,120)			(35,120)
Dividends declared – preferred shares [2]				(8,213)			(8,213)
Distributions to noncontrolling interests						(3,756)	(3,756)
Other comprehensive income					675		675
Other, net			513	(656)		(119)	(262)
Balance , March 31, 2012	$8	$3,649	$1,989,198	$ (327,296)	$ (27,068)	$ 165,768	$1,804,259
Balance, January 1, 2013	$7	$3,663	$1,934,183	$ (335,980)	$ (24,743)	$ 163,025	$1,740,155
Net income				43,350		1,467	44,817
Redemption of Series D preferred shares	(3)		(72,755)	(2,242)			(75,000)
Shares issued under benefit plans		8	6,400				6,408
Dividends declared – common shares [1]				(37,127)			(37,127)
Dividends declared – preferred shares [2]				(6,995)			(6,995)
Distributions to noncontrolling interests						(3,858)	(3,858)
Other comprehensive loss					(1,086)		(1,086)
Other, net			387	(445)		484	426
Balance, March 31, 2013	$4	$3,671	$1,868,215	$ (339,439)	$ (25,829)	$ 161,118	$1,667,740

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(1) Common dividend per share was $.305 and $.290 for the three months ended March 31, 2013 and 2012, respectively.

(2) Series D preferred dividend per share was $13.08 and $12.66 for the three months ended March 31, 2013 and 2012, respectively. Series E preferred dividend per share was $43.44 for the three months ended March 31, 2012. Series F preferred dividend per share was $40.63 for both the three months ended March 31, 2013 and 2012.

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies
Business
Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Business Organizations Code. We currently operate, and intend to operate in the future, as a REIT.

We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping centers we own or lease. We also provide property management services for which we charge fees for either joint ventures where we are partners or for other outside owners.
We operate a portfolio of neighborhood and community shopping centers, totaling approximately 53.0 million square feet of gross leaseable area, that is either owned by us or others. We have a diversified tenant base, with our largest tenant comprising only 3.1% of total rental revenues during the first three months of 2013. Net operating income from continuing operations generated by our properties located in Houston and its surrounding areas was 21.4% of total net operating income from continuing operations for the three months ended March 31, 2013, and an additional 7.6% of net operating income from continuing operations is generated from properties that are located in other parts of Texas.
Basis of Presentation
Our consolidated financial statements include the accounts of our subsidiaries, certain partially owned real estate joint ventures or partnerships and variable interest entities ("VIEs") which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated.
The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2012 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.
The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes thereto has been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012.
Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Such statements require management to make estimates and assumptions that affect the reported amounts on our consolidated financial statements. Actual results could differ from these estimates. We have evaluated subsequent events for recognition or disclosure in our consolidated financial statements.
Restricted Deposits and Mortgage Escrows
Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held for a specific use or in a qualified escrow account for the purposes of completing like-kind exchange transactions.
Our restricted deposits and mortgage escrows consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Restricted cash	$37,902	$36,944
Mortgage escrows	5,633	7,152
Total	$43,535	$44,096

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Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component consists of the following (in thousands):

	Gain and Losses on Cash Flow Hedges	Defined Benefit Pension Plan	Total
Balance, December 31, 2012	$7,489	$17,254	$24,743
Amounts reclassified from other comprehensive loss (income)	1,451 [1]	(365) [2]	1,086
Net other comprehensive loss (income)	1,451	(365)	1,086
Balance, March 31, 2013	$8,940	$16,889	$25,829

(1) This reclassification component is included in interest expense and other liabilities (see Note 7 for additional information).

(2) This reclassification component is included in the computation of net periodic benefit cost (see Note 14 for additional information).

Reclassifications

The reclassification of prior years' operating results for certain properties classified as discontinued operations was made to conform to the current year presentation (see Note 10 for additional information). These items had no impact on previously reported net income, earnings per share, the consolidated balance sheet or cash flows.

Note 2. Newly Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which requires entities to provide new disclosures about offsetting and related arrangements for financial instruments and derivatives. The provisions of ASU No. 2011-11 are effective for us on January 1, 2013, and are required to be applied retrospectively. The adoption of this ASU did not materially impact our consolidated financial statements, but required additional disclosures.

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," which amends the scope of ASU No. 2011-11 to apply only to entities with derivatives accounted for in accordance with Accounting Standard Code 815. The provisions of ASU No. 2013-01 are effective for us on January 1, 2013, and are required to be applied retrospectively. The adoption of this ASU did not materially impact our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income if it is required to be reclassified to net income in its entirety. For other reclassified amounts, an entity is required cross-reference to other disclosures that provide additional detail about those amounts. The provisions of ASU No. 2013-02 are effective for us on January 1, 2013, and are to be applied prospectively. The adoption of this ASU did not materially impact our consolidated financial statements, but required additional disclosures.

In February 2013, the FASB issued ASU No. 2013-04, "Obligations resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date." This ASU requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of (1) the amount the reporting entity has agreed to pay in accordance to the arrangement and (2) any additional amounts the reporting entity expects to pay on behalf of its co-obligors. Additional disclosures on the nature and amounts of the obligation will also be required. The provisions of ASU No. 2013-04 are effective for us on January 1, 2014, and are required to be applied retrospectively. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

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Note 3. Property

Our property consists of the following (in thousands):

	March 31, 2013	December 31, 2012
Land	$891,897	$881,156
Land held for development	121,504	121,294
Land under development	5,527	6,155
Buildings and improvements	3,348,093	3,325,793
Construction in-progress	58,106	65,452
Total	$4,425,127	$4,399,850

The following carrying charges were capitalized (in thousands):

	Three Months Ended March 31,	
	2013	2012
Interest	$569	$783
Real estate taxes	63	123
Total	$632	$906

During the three months ended March 31, 2013, we acquired one center for approximately $18.0 million.

During the three months ended March 31, 2013, we sold one center. Aggregate gross sales proceeds from this transaction totaled $4.0 million.

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Note 4. Investment in Real Estate Joint Ventures and Partnerships

We own interests in real estate joint ventures or limited partnerships and have tenancy-in-common interests in which we exercise significant influence, but do not have financial and operating control. We account for these investments using the equity method, and our interests range from 10% to 75% for the 2013 and 2012 periods presented.

Combined condensed financial information of these ventures (at 100%) is summarized as follows (in thousands):

	March 31, 2013	December 31, 2012
Combined Condensed Balance Sheets		
ASSETS		
Property	$1,568,267	$1,631,694
Accumulated depreciation	(274,214)	(273,591)
Property, net	1,294,053	1,358,103
Other assets, net	154,599	161,344
Total	$1,448,652	$1,519,447
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt, net (primarily mortgages payable)	$466,149	$468,841
Amounts payable to Weingarten Realty Investors and Affiliates	106,311	109,931
Other liabilities, net	32,762	34,157
Total	605,222	612,929
Accumulated equity	843,430	906,518
Total	$1,448,652	$1,519,447

	Three Months Ended March 31,	
	2013	2012
Combined Condensed Statements of Operations		
Revenues, net	$42,161	$49,847
Expenses:		
Depreciation and amortization	12,021	16,136
Interest, net	7,545	9,086
Operating	6,154	8,625
Real estate taxes, net	4,583	6,238
General and administrative	286	361
Provision for income taxes	62	73
Impairment loss	1,815	—
Total	32,466	40,519
Operating income	$9,695	$9,328

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Our investment in real estate joint ventures and partnerships, as reported in our Condensed Consolidated Balance Sheets, differs from our proportionate share of the entities' underlying net assets due to basis differences, which arose upon the transfer of assets to the joint ventures. The net positive basis differences, which totaled $6.2 million and $1.6 million at March 31, 2013 and December 31, 2012, respectively, are generally amortized over the useful lives of the related assets.

Our real estate joint ventures and partnerships have determined that the carrying amount of certain properties was not recoverable and that the properties should be written down to fair value. For the three months ended March 31, 2013, our unconsolidated real estate joint ventures and partnerships recorded an impairment charge of $1.8 million on various properties that have been marketed and sold during the period. There was no impairment recorded for the three months ended March 31, 2012.

Fees earned by us for the management of these real estate joint ventures and partnerships totaled $1.4 million and $1.7 million for the three months ended March 31, 2013 and 2012, respectively.

During 2013, the final two industrial properties in an unconsolidated joint venture were sold. This joint venture was liquidated resulting in an $11.5 million gain on our investment. Also, two shopping centers were sold, and the gross sales proceeds from the disposition of these four properties totaled $11.7 million.

In August 2012, we acquired a partner's 79.6% interest in an unconsolidated tenancy-in-common arrangement for approximately $29.6 million that we had previously accounted for under the equity method and included the assumption of debt of $24.5 million. This transaction resulted in the consolidation of the property in our consolidated financial statements.

During 2012, our interest in 19 industrial properties held in unconsolidated joint ventures, in which we are a partner, were sold through either a direct sale by the joint venture or the sale of our interest. Gross sales proceeds, including the assumption of debt, from these transactions totaled $210.4 million.

In February 2012, we sold a 47.8% unconsolidated joint venture interest in a Colorado development project to our partner with gross sales proceeds totaling $29.1 million, which includes the assumption of our share of debt.

Note 5. Notes Receivable from Real Estate Joint Ventures and Partnerships

We have ownership interests in a number of real estate joint ventures and partnerships. Notes receivable from these entities bear interest ranging from approximately 2.9% to 10.0% at March 31, 2013 and 2.9% to 16.0% at December 31, 2012. These notes are due at various dates through 2014 and are generally secured by underlying real estate assets.

We believe these notes are fully collectible, and no allowance has been recorded. Interest income recognized on these notes was $.6 million and $.7 million for the three months ended March 31, 2013 and 2012, respectively.

In November 2012, a $16.1 million note matured and is under negotiations for repayment. We believe no loss will be incurred associated with this settlement.

In February 2012, we received $59.2 million in payment of our notes receivable from real estate joint ventures and partnerships, in conjunction with the sale of our 47.8% interest in an unconsolidated real estate joint venture. See Note 15 for additional information.

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Note 6. Debt

Our debt consists of the following (in thousands):

	March 31, 2013	December 31, 2012
Debt payable to 2038 at 2.6% to 8.6% in 2013 and 2.6% to 8.8% in 2012	$2,227,395	$2,041,709
Unsecured notes payable under credit facilities	—	66,000
Debt service guaranty liability	74,075	74,075
Obligations under capital leases	21,000	21,000
Industrial revenue bonds payable to 2015 at 2.4%	1,150	1,246
Total	$2,323,620	$2,204,030

The grouping of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	March 31, 2013	December 31, 2012
As to interest rate (including the effects of interest rate contracts):		
Fixed-rate debt	$2,179,715	$1,992,599
Variable-rate debt	143,905	211,431
Total	$2,323,620	$2,204,030
As to collateralization:		
Unsecured debt	$1,438,838	$1,270,742
Secured debt	884,782	933,288
Total	$2,323,620	$2,204,030

Effective September 30, 2011, we entered into an amended and restated $500 million unsecured revolving credit facility. At March 31, 2013, the facility expires in September 2015 and provides for a one-year extension upon our request and borrowing rates that float at a margin over LIBOR plus a facility fee. The borrowing margin and facility fee, which are priced off a grid that is tied to our senior unsecured credit ratings, are 125 and 25 basis points, respectively. The facility also contains a competitive bid feature that will allow us to request bids for up to $250 million. Additionally, an accordion feature allows us to increase the facility amount up to $700 million.

Subsequent to March 31, 2013, we amended our $500 million unsecured revolving credit facility. The amendment reduces the borrowing margin and facility fee, which are priced off a grid that is tied to our senior unsecured credit ratings, by 10 and five basis points, respectively. In addition, the maturity date has been extended to 2017, and we have two consecutive six month extensions available.

Effective May 2010, we entered into an agreement with a bank for an unsecured and uncommitted overnight facility totaling $99 million that we maintain for cash management purposes. The facility provides for fixed interest rate loans at a 30-day LIBOR rate plus a borrowing margin based on market liquidity.

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The following table discloses certain information regarding our unsecured notes payable under our credit facilities (in thousands, except percentages):

	March 31, 2013		December 31, 2012	
Unsecured revolving credit facility:				
Balance outstanding	$—		$30,000	
Available balance	497,571		467,571	
Letter of credit outstanding under facility	2,429		2,429	
Variable interest rate (excluding facility fee)	—	%	1.1	%
Unsecured and uncommitted overnight facility:				
Balance outstanding	$—		$36,000	
Variable interest rate	—	%	1.5	%
Both facilities:				
Maximum balance outstanding during the period	$265,500		$303,100	
Weighted average balance	114,956		157,447	
Year-to-date weighted average interest rate (excluding facility fee)	1.1	%	1.3	%

Related to a development project in Sheridan, Colorado, we have provided a guaranty for the payment of any debt service shortfalls until a coverage rate of 1.4x is met on tax increment revenue bonds issued in connection with the project. The bonds are to be repaid with incremental sales and property taxes and a public improvement fee ("PIF") to be assessed on current and future retail sales and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the date the bond liability has been paid in full or 2040, as extended by the Sheridan Redevelopment Agency ("Agency") in April 2011. Therefore, a debt service guaranty liability equal to the fair value of the amounts funded under the bonds was recorded. For both periods ended at March 31, 2013 and December 31, 2012, we had $74.1 million outstanding for the debt service guaranty liability.

On March 22, 2013, we issued $300 million of 3.5% senior unsecured notes maturing in 2023. The notes were issued at 99.53% of the principal amount with a yield to maturity of 3.56%. The net proceeds received of $296.6 million were used to reduce amounts outstanding under our $500 million unsecured revolving credit facility, which included borrowings used to redeem $75 million of our 6.75% Series D Cumulative Redeemable Preferred Shares. In addition, $63.0 million of fixed-rate medium term notes matured during the quarter at a weighted average interest rate of 5.6%.

Various leases and properties, and current and future rentals from those leases and properties, collateralize certain debt. At March 31, 2013 and December 31, 2012, the carrying value of such assets aggregated $1.5 billion for both periods.

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Scheduled principal payments on our debt (excluding $21.0 million of certain capital leases, $8.9 million fair value of interest rate contracts, $(2.5) million net premium/(discount) on debt, $1.5 million of non-cash debt-related items, and $74.1 million debt service guaranty liability) are due during the following years (in thousands):

2013 remaining	$247,465
2014	473,103
2015	274,707
2016	223,198
2017	140,830
2018	63,057
2019 [1]	152,211
2020	2,099
2021	957
2022	303,410
Thereafter	339,312
Total	$2,220,349

(1) Includes $100 million of our 8.1% senior unsecured notes due 2019 which may be redeemed by us at any time on or after September 2014 at our option.

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios, minimum net worth requirements and maximum total debt levels. We believe we were in compliance with our public debt and revolving credit facility covenants as of March 31, 2013.

Note 7. Derivatives and Hedging

The fair value of all our interest rate contracts is reported as follows (in thousands):

	Assets		Liabilities	
	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Designated Hedges:				
March 31, 2013	Other Assets, net	$8,938	Other Liabilities, net	$2,874
December 31, 2012	Other Assets, net	9,926	Other Liabilities, net	768

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The gross presentation, the effects of offsetting under master netting agreements and the net presentation of our interest rate contracts is as follows (in thousands):

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2013						
Assets	$8,938	$—	$8,938	$(706)	$—	$8,232
Liabilities	2,874	—	2,874	(706)	—	2,168
December 31, 2012						
Assets	9,926	—	9,926	—	—	9,926
Liabilities	768	—	768	—	—	768

Cash Flow Hedges:

As of March 31, 2013 and December 31, 2012, we had three active interest rate contracts designated as cash flow hedges with an aggregate notional amount of $26.3 million and $26.5 million, respectively. These contracts have maturities through September 2017 and either fix or cap interest rates ranging from 2.3% to 5.0%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows.

Also, at March 31, 2013, we had three forward-starting contracts with an aggregate notional amount of $150.0 million hedging future fixed-rate debt issuances. These contracts are effective in January 2014, mature in January 2024 and fix the 10-year swap rates at 2.4%.

As of March 31, 2013 and December 31, 2012, the balance in accumulated other comprehensive loss relating to cash flow interest rate contracts was $8.9 million and $7.5 million, respectively, and will be reclassified to net interest expense as interest payments are made on our fixed-rate debt. Within the next 12 months, approximately $3.5 million of the balance in accumulated other comprehensive loss is expected to be amortized to net interest expense related to settled interest rate contracts.

A summary of cash flow interest rate contract hedging activity is as follows (in thousands):

Derivatives Hedging Relationships	Amount of (Gain) Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2013	$2,107	Interest expense, net	$(656)	Interest expense, net	$—
Three Months Ended March 31, 2012	(16)	Interest expense, net	(659)	Interest expense, net	—

Fair Value Hedges:

As of March 31, 2013 and December 31, 2012, we had four interest rate contracts, maturing through October 2017, with an aggregate notional amount of $117.7 million and $118.1 million, respectively, that were designated as fair

value hedges and convert fixed interest payments at rates from 4.2% to 7.5% to variable interest payments ranging from .3% to 4.3%. We have determined that our fair value hedges are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in interest rates.

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A summary of the changes in fair value of our interest rate contracts is as follows (in thousands):

	Gain (Loss) on Contracts	Gain (Loss) on Borrowings	Gain (Loss) Recognized in Income
Three Months Ended March 31, 2013			
Interest expense, net	$(987)	$987	$—
Three Months Ended March 31, 2012			
Interest expense, net	(530)	530	—

A summary of our fair value interest rate contract hedges impact on net income is as follows (in thousands):

Derivatives Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2013	Interest expense, net	$42	Interest expense, net	$—
Three Months Ended March 31, 2012	Interest expense, net	(471)	Interest expense, net	—

Note 8. Preferred Shares of Beneficial Interest

In April 2003, we issued $75 million of depositary shares with each share representing one-thirtieth of a Series D Cumulative Redeemable Preferred Share. The depositary shares were redeemed on March 18, 2013, at our option, for cash at a redemption price of $25 per depositary share or $75 million, plus accrued and unpaid dividends thereon. Upon the redemption of these shares, the related original issuance costs of $2.2 million were reported as a deduction in arriving at net income attributable to common shareholders. The Series D Preferred Shares paid a 6.75% annual dividend, had a liquidation value of $750 per share and were not convertible or exchangeable for any of our property or securities.

On May 6, 2013, we called a portion of our 6.5% Series F Cumulative Redeemable Preferred Shares with a redemption value of $200 million, which will settle on June 5, 2013.

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Note 9. Impairment

The following impairment charges were recorded on the following assets based on the difference between the carrying amount of the assets and the estimated fair value (see Note 19 for additional fair value information) (in thousands):

	Three Months Ended March 31,	
	2013	2012
Continuing operations:		
Property marketed for sale or sold [(1)]	$56	$244
Investments in real estate joint ventures and partnerships [(2)]	—	6,608
Total reported in continuing operations	56	6,852
Discontinued operations:		
Property held for sale or sold [(3)]	236	3,171
Total impairment charges	292	10,023
Other financial statement caption impacted by impairment:		
Equity in earnings of real estate joint ventures and partnerships, net	363	—
Net impact of impairment charges	$655	$10,023

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(1) These charges resulted from changes in management’s plans for these properties, primarily the marketing of these properties for sale. Also included in this caption are impairments associated with dispositions that did not qualify to be reported in discontinued operations.

(2) Amounts reported in 2012 were based on third party offers to buy our interests in industrial real estate joint ventures.

(3) Amounts reported were based on third party offers.

Note 10. Discontinued Operations

For the three months ended March 31, 2013, we sold one center located in Florida. No properties were classified as held for sale as of March 31, 2013, as the potential disposition of assets currently being marketed was not deemed probable.

During 2012, we sold 27 shopping centers, 54 industrial properties, and we assigned a 75% interest consolidated joint venture interest to our partner. Of these dispositions, 55 were located in Texas, six each in Florida and Georgia, three in North Carolina, two each in Colorado, Louisiana and Virginia and one each in Arizona, Illinois, Kansas, Maine, Oklahoma and Tennessee. As part of these 2012 dispositions, we sold, in May 2012, a portfolio of 52 wholly-owned industrial properties in order to exit the industrial real estate market and further align and strengthen our position solely as a retail REIT.

Included in the Condensed Consolidated Balance Sheet at December 31, 2012 was $4.0 million of property and $.1 million of accumulated depreciation related to the one property that was sold during 2013.

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The operating results of these properties have been reclassified and reported as discontinued operations in the Condensed Consolidated Statements of Operations and Comprehensive Income as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues, net	$119	$18,848
Depreciation and amortization	(12)	(5,619)
Operating expenses	(22)	(3,296)
Real estate taxes, net	(4)	(2,836)
Impairment loss	(236)	(3,171)
General and administrative	—	(14)
Interest, net	—	(279)
Operating (loss) income from discontinued operations	(155)	3,633
Gain on sale of property from discontinued operations	—	3,634
(Loss) income from discontinued operations	$(155)	$7,267

We do not allocate other consolidated interest to discontinued operations because the interest savings to be realized from the proceeds of the sale of these operations is not material.

Note 11. Supplemental Cash Flow Information

Non-cash investing and financing activities are summarized as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Accrued property construction costs	$5,134	$6,933
Property acquisitions and investments in unconsolidated real estate joint ventures:		
(Decrease) increase in property, net	(1,688)	1,647
Increase in security deposits	73	—
Sale of property and property interest:		
Decrease in property, net	—	(2,855)
Decrease in real estate joint ventures and partnerships - investments	—	(95)
Decrease in restricted deposits and mortgage escrows	—	(204)
Decrease in debt, net due to debt assumption	—	(3,366)
Decrease in security deposits	—	(11)
Decrease in noncontrolling interests	—	(95)

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Note 12. Earnings Per Share

Earnings per common share – basic is computed using net income attributable to common shareholders and the weighted average number of shares outstanding – basic. Earnings per common share – diluted include the effect of potentially dilutive securities. Income from continuing operations attributable to common shareholders includes gain on sale of property in accordance with Securities and Exchange Commission guidelines. Earnings per common share – basic and diluted components for the periods indicated are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Continuing Operations:		
Income from continuing operations	$44,830	$14,931
Gain on sale of property	142	440
Net income attributable to noncontrolling interests	(1,467)	(1,441)
Dividends on preferred shares	(7,440)	(8,869)
Redemption costs of preferred shares	(2,242)	—
Income from continuing operations attributable to common shareholders – basic and diluted	$33,823	$5,061
Discontinued Operations:		
(Loss) income from discontinued operations attributable to common shareholders – basic and diluted	$(155)	$7,267
Denominator:		
Weighted average shares outstanding - basic	121,058	120,481
Effect of dilutive securities:		
Share options and awards	1,165	960
Weighted average shares outstanding - diluted	122,223	121,441

Anti-dilutive securities of our common shares, which are excluded from the calculation of earnings per common share – diluted, are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Share options (1)	2,313	3,147
Operating partnership units	1,556	1,584
Total anti-dilutive securities	3,869	4,731

(1) Exclusion results as exercise prices were greater than the average market price for each respective period.

Note 13. Share Options and Awards

During the first quarter of 2013, we granted restricted share awards incorporating both service-based and two market-based measures to promote share ownership among the participants and to emphasize the importance of total shareholder return ("TSR"). The terms of each grant vary depending upon the participant's responsibilities and position within the Company. We categorize these share awards as either service-based share awards or market-based share awards. All awards were valued at the fair market value on the date of grant and earn dividends throughout the vesting period. Compensation expense is measured at the grant date and recognized over the vesting period. All share awards are awarded subject to the participant’s continued employment with us.

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The fair value of the market-based share awards was estimated on the date of grant using a Monte Carlo valuation model based on the following assumptions:

	Three Months Ended March 31, 2013	
	Minimum	Maximum
Dividend yield	0.0 %	3.9 %
Expected volatility	13.2 %	29.0 %
Expected life (in years)	NA	3
Risk-free interest rate	0.1 %	0.4 %

A summary of the status of unvested restricted share awards for the three months ended March 31, 2013 is as follows:

	Unvested Restricted Share Awards	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2013	496,571	$23.10
Granted:		
Service-based awards	102,456	29.71
Market-based awards relative to FTSE NAREIT U.S. Shopping Center Index	44,580	31.83
Market-based awards relative to three-year absolute TSR	44,580	37.49
Vested	(81,489)	19.43
Forfeited	(43)	27.14
Outstanding, March 31, 2013	606,655	$26.41

As of March 31, 2013 and December 31, 2012, there was approximately $6.1 million and $4.7 million, respectively, of total unrecognized compensation cost related to unvested restricted shares, which is expected to be amortized over a weighted average of 2.2 years and 1.9 years, respectively.

Note 14. Employee Benefit Plans

Defined Benefit Plans:

We sponsor a noncontributory qualified retirement plan. The components of net periodic benefit cost for this plan are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012[(1)]
Service cost	$426	$391
Interest cost	513	469
Expected return on plan assets	(814)	(667)
Prior service cost	—	(35)
Recognized loss	425	467
Total	$550	$625

(1) Effective January 1, 2012, our supplemental retirement plans were amended and designated as defined contribution plans. Prior years' operating results were restated to conform to the current year presentation. This item had no impact on previously reported net income, earnings per share, the consolidated balance sheet or cash flows.

Subsequent to March 31, 2013 and 2012, we contributed $1.8 million and $2.5 million, respectively, to the qualified retirement plan. Currently, we do not anticipate making any additional contributions to this plan during 2013.

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Defined Contribution Plans:
Compensation expense related to our defined contribution plans was $1.0 million for both the three months ended March 31, 2013 and 2012.

Note 15. Related Parties
Through our management activities and transactions with our real estate joint ventures and partnerships, we had net accounts receivable of $1.4 million and $1.8 million outstanding as of March 31, 2013 and December 31, 2012, respectively. We also had accounts payable and accrued expenses of $5.9 million and $6.3 million outstanding as of March 31, 2013 and December 31, 2012, respectively. For the three months ended March 31, 2013 and 2012, we recorded joint venture fee income of $1.4 million and $1.7 million, respectively.
In February 2012, we sold our 47.8% unconsolidated joint venture interest in a Colorado development project to our partner with gross sales proceeds totaling $29.1 million, which includes the assumption of our share of debt, generating a gain of $3.5 million.
In November 2012, we sold three unconsolidated joint venture interests, ranging from 20% to 50%, in nine industrial properties to our partner with gross sales proceeds totaling $20.9 million, which includes the assumption of our share of debt, generating a gain of $8.6 million.

Note 16. Commitments and Contingencies
As of March 31, 2013, we participate in four real estate ventures structured as DownREIT partnerships that have properties in Arkansas, California, North Carolina, Texas and Utah. As a general partner, we have operating and financial control over these ventures and consolidate them in our consolidated financial statements. These ventures allow the outside limited partners to put their interest in the partnership to us in exchange for our common shares or an equivalent amount in cash. We may acquire any limited partnership interests that are put to the partnership, and we have the option to redeem the interest in cash or a fixed number of our common shares, at our discretion. We also participate in a real estate venture that has a property in Texas that allows its outside partner to put operating partnership units to us. We have the option to redeem these units in cash or a fixed number of our common shares, at our discretion. No common shares were issued in exchange for any of these interests during the three months ended March 31, 2013 and 2012. The aggregate redemption value of these interests was approximately $49 million and $42 million as of March 31, 2013 and December 31, 2012, respectively.
We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any contamination which may have been caused by us or any of our tenants that would have a material effect on our consolidated financial statements.
As part of our risk management activities, we have applied and been accepted into state sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.
While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in additional liabilities to us.
During 2011, we filed a lawsuit against our joint venture partner in connection with a development project in Sheridan, Colorado for failure to perform on the joint venture’s past due intercompany note payable to us, which has been eliminated within our consolidated financial statements. We are also involved in one consolidated and two unconsolidated joint ventures with this partner. We are unable to determine the outcome of the lawsuit or its potential effects on our other joint ventures with this partner.
As of March 31, 2013, we have entered into commitments aggregating $91.1 million comprised principally of construction contracts which are generally due in 12 to 36 months.
We are also involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the amounts involved, our management and counsel are of the opinion that, when such litigation is resolved, any additional liability, if any, will not have a material effect on our consolidated financial statements.

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Note 17. Variable Interest Entities

Consolidated VIEs:

Two of our real estate joint ventures whose activities principally consist of owning and operating 30 neighborhood/community shopping centers, located in Florida, Georgia, North Carolina, Tennessee and Texas, were determined to be VIEs. Based on a financing agreement that is guaranteed solely by us for tax planning purposes at one entity and an agreement providing for guaranteed distributions until certain transactions have settled, in addition to, a loan guaranty provided solely by us at the other entity, we have determined that we are the primary beneficiary in both instances and have consolidated these joint ventures.

A summary of our consolidated VIEs is as follows (in thousands):

	March 31, 2013	December 31, 2012
Maximum Risk of Loss [(1)]	$128,473	$111,305
Assets held by VIEs	250,133	257,374
Assets held as collateral for debt	241,803	246,486

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(1) The maximum risk of loss has been determined to be limited to our debt exposure for each real estate joint venture.

Restrictions on the use of these assets are significant because they serve as collateral for the VIEs' debt, and we would generally be required to obtain our partners' approval in accordance with the joint venture agreements for any major transactions. Transactions with these joint ventures on our consolidated financial statements have been limited to changes in noncontrolling interests and reductions in debt from our partners' contributions. We and our partners are subject to the provisions of the joint venture agreements which include provisions for when additional contributions may be required including operating cash shortfalls and unplanned capital expenditures. We have not provided any additional support to the VIEs as of March 31, 2013.

Unconsolidated VIEs:

At March 31, 2013 and December 31, 2012, two unconsolidated real estate joint ventures were determined to be VIEs through the issuance of secured loans, of which $20.8 million of debt associated with a tenancy-in-common arrangement is recorded in our Condensed Consolidated Balance Sheet, since the lenders have the ability to make decisions that could have a significant impact on the success of the entities. A summary of our unconsolidated VIEs is as follows (in thousands):

	March 31, 2013	December 31, 2012
Investment in Real Estate Joint Ventures and Partnerships, net [(1)]	$29,969	$29,628
Maximum Risk of Loss [(2)]	32,719	32,990

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(1) The carrying amount of the investments represents our contributions to the real estate joint ventures net of any distributions made and our portion of the equity in earnings of the joint ventures.

(2) The maximum risk of loss has been determined to be limited to our debt exposure for each real estate joint venture.

We and our partners are subject to the provisions of the joint venture agreements that specify conditions, including operating shortfalls and unplanned capital expenditures, under which additional contributions may be required.

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Note 18. Business Combinations

During 2012, we acquired four shopping centers located in California, Georgia, Maryland and Texas, and we consolidated a partner's 79.6% interest in an unconsolidated tenancy-in-common arrangement related to a property in Louisiana. The following table summarizes the transactions related to these acquisitions, including the assets acquired and liabilities assumed as indicated (in thousands):

	December 31, 2012		
Fair value of our equity interest before acquisition	$	3,825	
Fair value of consideration transferred	218,481		(1)
Amounts recognized for assets and liabilities assumed:			
Assets:			
Property	$	195,377	
Unamortized debt and lease costs	36,787		
Restricted deposits and mortgage escrows	395		
Other, net	3,742		
Liabilities:			
Debt, net	(46,923		) (2)

$ (263)

Net interest income change (%)	0.87%	(0.76%)

As more fully discussed below, the March 31, 2009 interest rate sensitivity modeling results indicate that the Bank s balance sheet is liability sensitive over the one year horizon and about evenly matched over the two-year horizon, positioning the Bank well for increases or declines in short-term and long term interest rates over a two year horizon.

Assuming interest rates remain at or near their current levels and the Bank s balance sheet structure and size remain at current levels, the interest rate sensitivity simulation model suggests that net interest income will trend upward over the one and two-year horizons and beyond. The upward trend principally results from funding costs rolling over at rates lower than current portfolio levels while earning asset yields remain relatively stable.

Assuming short-term and long-term interest rates decline 100 basis points from current levels (i.e., a parallel yield curve shift) and the Bank s balance sheet structure and size remain at current levels, management believes net interest income will trend upward over the one year horizon as reductions to funding costs more than offset declining asset yields. Over the two year horizon, the interest rate sensitivity simulation model suggests the net interest margin will be pressured by accelerated cash flows on earning assets and the re-pricing of the Bank s earning asset base, resulting in a slow downward trend in net interest income. Should the yield curve steepen as rates fall, the model suggests that accelerated earning asset prepayments will slow, resulting in an improvement in net interest income. Management anticipates that continued earning asset growth will be needed to meaningfully increase the Bank s current level of net interest income should both long-term and short-term interest rates decline in parallel.

Assuming the Bank s balance sheet structure and size remain at current levels and the Federal Reserve increases short-term interest rates by 200 basis points, and the balance of the yield curve shifts in parallel with these increases, management believes net interest income will post a moderate decline over the twelve month horizon, then begin a steady recovery over the two year horizon and beyond. The interest rate sensitivity simulation model suggests that as interest rates rise, the Bank s funding costs will re-price more quickly than its earning asset portfolios, causing a moderate decline in net interest income. As funding costs begin to stabilize early in the second year of the simulation, the earning asset portfolios will continue to re-price at prevailing interest rate levels and cash flows from earning asset portfolios will be reinvested into higher yielding earning assets, resulting in a widening of spreads and improving levels of net interest income over the two year horizon and beyond. Management believes strong earning asset growth will be necessary to meaningfully increase the current level of net interest income over the one year horizon should short-term and long-term interest rates rise in parallel. Over the two year horizon and beyond, management believes moderate earning asset growth will be necessary to meaningfully increase the current level of net interest income.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels and yield curve shape, prepayment speeds on loans and securities, deposit rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cash flows, and renegotiated loan terms with borrowers. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

As market conditions vary from those assumed in the sensitivity analysis, actual results may also differ due to: prepayment and refinancing levels deviating from those assumed; the impact of interest rate change caps or floors on adjustable rate assets; the potential effect of changing debt service levels on customers with adjustable rate loans; depositor early withdrawals and product preference changes; and other such variables. The sensitivity analysis also does not reflect additional actions that the Bank s ALCO and board of directors might take in responding to or anticipating changes in interest rates, and the anticipated impact on the Bank s net interest income.

ITEM 4. CONTROLS AND PROCEDURES

Company management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations and are operating in an effective manner.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

The Company and its subsidiaries are parties to certain ordinary routine litigation incidental to the normal conduct of their respective businesses, which in the opinion of management based upon currently available information will have no material effect on the Company's consolidated financial statements.

Item 1A: Risk Factors

There have been no material changes to the Risk Factors previously disclosed in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the year-ended December 31, 2008.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) The following table sets forth information with respect to any purchase made by or on behalf of the Company or any "affiliated purchaser," as defined in Sectuib 240.10b-18(a)(3) under the Exchange Act, of shares of

Company s common stock during the periods indicated.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2009	5,571	$25.95	5,571	233,218
February 1-28, 2009	---	---	---	233,218
March 1-31, 2009	---	---	---	233,218

In August 2008, the Company s Board of Directors approved a program to repurchase of up to 300,000 shares of the Company s common stock, or approximately 10.2% of the shares currently outstanding. The new stock repurchase program became effective as of August 21, 2008 and will continue for a period of up to twenty-four consecutive months.

Item 3: Defaults Upon Senior Securities None

Item 4: Submission of Matters to a Vote of Security Holders None

A special meeting of the Company s shareholders was held on January 7, 2009, to approve an amendment to the Company s Articles of Incorporation to authorize 1,000,000 shares of preferred stock, which may be issued in one or more series, with such rights, preferences, privileges and restrictions as shall be fixed by the Board of Directors. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities and Exchange Act of 1934. The Company s shareholders approved the amendment to the Company s Articles of Incorporation. The results of the voting are presented in the table below:

For	Against	Abstain	Non Vote
1,454,157	234,093	19,170	627,081

Item 5: Other Information

(a) None

(b) None

Item 6: Exhibits

(a) Exhibits.

EXHIBIT NUMBER		
3.1	Articles of Incorporation, as amended to date	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 3.1, filed with the Commission on

		March 16, 2009.
3.2	Bylaws, as amended to date	Incorporated herein by reference to Form 8-K, Exhibit 3, filed with the Commission on December 17, 2008.
4	Instruments Defining Rights of Security Holders	
4.1	Certificate of Designations, Fixed Rate Cumulative Perpetual Preferred Stock, Series A	Incorporated herein by reference to Form 8-K, Exhibit 3.1, filed with the Commission on January 21, 2009.
4.2	Form of Specimen Stock Certificate for Series A Preferred Stock	Incorporated herein by reference to Form 8-K, Exhibit 4.1, filed with the Commission on January 21, 2009.
4.3	Letter Agreement with U. S. Treasury for purchase of Series A Preferred Stock	Incorporated herein by reference to Form 8-K, Exhibit 10.1, filed with the Commission on January 21, 2009.
4.4	Warrant to Purchase Shares of Company Common Stock issued to U. S. Treasury	Incorporated herein by reference to Form 8-K, Exhibit 4.2, filed with the Commission on January 21, 2009.
4.5	Debt Securities Purchase Agreement	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 4.5, filed with the Commission on March 16, 2009.
4.6	Form of Subordinated Debt Security of Bar Harbor Bank & Trust	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 4.6, filed with the Commission on March 16, 2009.
11.1	Statement re computation of per share earnings	Data required by SFAS No. 128, Earnings Per Share, is provided in Note 3 to the consolidated financial statements in this report on Form 10-Q.
31.1	Certification of the Chief Executive Officer under Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of the Chief Financial Officer under Rule 13a-14(a)/15d-14(a)	Filed herewith.
32.1	Certification of Chief Executive Officer under 18 U.S.C. Section 1350	Filed herewith.
32.2	Certification of Chief Financial Officer under 18 U.S.C. Section 1350	Filed herewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAR HARBOR BANKSHARES
(Registrant)

/s/Joseph M. Murphy

Date: May 11, 2009

Joseph M. Murphy
President & Chief Executive Officer

/s/Gerald Shencavitz

Date: May 11, 2009

Gerald Shencavitz
Executive Vice President & Chief Financial Officer