EPR PROPERTIES
Form 10-Q
November 06, 2013

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

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to
Commission file number: 001-13561

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

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

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

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

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 x No o

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

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

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

At November 4, 2013, there were 51,652,981 common shares outstanding.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

With the exception of historical information, certain statements contained or incorporated by reference herein may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as those pertaining to our acquisition or disposition of properties, our capital resources, future expenditures for development projects, and our results of operations and financial condition. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of actual events. There is no assurance the events or circumstances reflected in the forward-looking statements will occur. You can identify forward-looking statements by use of words such as "will be," "intend," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "pipeline," "anticipates," "estimates," "offers," "plans" "would," or other similar expressions or other comparable terms or discussions of strategy, plans or intentions in this Quarterly Report on Form 10-Q. In addition, references to our budgeted amounts and guidance are forward-looking statements.

Factors that could materially and adversely affect us include, but are not limited to, the factors listed below:

- General international, national, regional and local business and economic conditions;
- Continuing volatility in the financial markets;
- Adverse changes in our credit ratings;
- The downgrade of the U.S. Government's credit rating and any future downgrade of the U.S. Government's credit rating;
- Fluctuations in interest rates;
- The duration or outcome of litigation, or other factors outside of litigation, relating to our significant investment in a planned casino and resort development which may cause the development to be indefinitely delayed or cancelled;
- Defaults in the performance of lease terms by our tenants;
- Defaults by our customers and counterparties on their obligations owed to us;
- A borrower's bankruptcy or default;
- The obsolescence of older multiplex theatres owned by some of our tenants or by any overbuilding of megaplex theatres in their markets;
- Our ability to renew maturing leases with theatre tenants on terms comparable to prior leases and/or our ability to lease any re-claimed space from some of our larger theatres at economically favorable terms;
- Risks of operating in the entertainment industry;
- Our ability to compete effectively;
- A single tenant represents a substantial portion of our lease revenues;
- A single tenant leases or is the mortgagor of a substantial portion of our investments related to metropolitan ski areas and a single tenant leases a significant number of our public charter school properties;
- The ability of our public charter school tenants to comply with their charters and continue to receive funding from local, state and federal governments, the approval by applicable governing authorities of substitute operators to assume control of any failed public charter schools and our ability to negotiate the terms of new leases with such substitute tenants on acceptable terms, and our ability to complete collateral substitutions as applicable;
- Risks associated with use of leverage to acquire properties;
- Financing arrangements that require lump-sum payments;
- Our ability to raise capital;
- Covenants in our debt instruments that limit our ability to take certain actions;
- Risks of acquiring and developing properties and real estate companies;
- The concentration and lack of diversification of our investment portfolio;
- Our continued qualification as a real estate investment trust for U.S. federal income tax purposes;
- The ability of our subsidiaries to satisfy their obligations;
- Financing arrangements that expose us to funding or purchase risks;
- Risks associated with security breaches and other disruptions;
- We have a limited number of employees and the loss of personnel could harm operations;
- Fluctuations in the value of real estate income and investments;

- Risks relating to real estate ownership, leasing and development, including local conditions such as an oversupply of space or a reduction in demand for real estate in the area, competition from other available space, whether tenants and users such as customers of our tenants consider a property attractive, changes in real estate taxes and other expenses, changes in market rental rates, the timing and costs associated with property improvements and rentals, changes in taxation or zoning laws or other governmental regulation, whether we are able to pass some or all of any increased operating costs through to tenants, and how well we manage our properties;
- Our ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
- Risks involved in joint ventures;
- Risks in leasing multi-tenant properties;
- A failure to comply with the Americans with Disabilities Act or other laws;
- Risks of environmental liability;
- Our real estate investments are relatively illiquid;
- Risks associated with owning assets in foreign countries;
- Risks associated with owning, operating or financing properties for which the tenants', mortgagors' or our operations may be impacted by weather conditions and climate change;
- Our ability to pay dividends in cash or at current rates;
- Fluctuations in the market prices for our shares;
- Certain limits on changes in control imposed under law and by our Declaration of Trust and Bylaws;
- Policy changes obtained without the approval of our shareholders;
- Equity issuances could dilute the value of our shares;
- Future offerings of debt or equity securities, which may rank senior to our common shares;
- Risks associated with changes in the Canadian exchange rate; and
- Changes in laws and regulations, including tax laws and regulations.

Our forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission ("SEC") on February 27, 2013.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference herein. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Rental properties, net of accumulated depreciation of $398,037 and $375,684 at September 30, 2013 and December 31, 2012, respectively	$1,933,782	$1,885,093
Rental properties held for sale, net	2,788	2,788
Land held for development	200,325	196,177
Property under development	86,048	29,376
Mortgage notes and related accrued interest receivable	514,071	455,752
Investment in a direct financing lease, net	240,990	234,089
Investment in joint ventures	13,683	11,971
Cash and cash equivalents	24,141	10,664
Restricted cash	18,110	23,991
Deferred financing costs, net	24,318	19,679
Accounts receivable, net	40,326	38,738
Other assets	36,691	38,412
Total assets	$3,135,273	$2,946,730
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	$58,273	$65,481
Common dividends payable	12,636	35,165
Preferred dividends payable	5,951	6,021
Unearned rents and interest	18,979	11,333
Long-term debt	1,545,973	1,368,832
Total liabilities	1,641,812	1,486,832
Equity:		
Common Shares, $.01 par value; 75,000,000 shares authorized; and 49,696,309 and 48,454,181 shares issued at September 30, 2013 and December 31, 2012, respectively	497	484
Preferred Shares, $.01 par value; 25,000,000 shares authorized:		
5,400,000 Series C convertible shares issued at September 30, 2013 and December 31, 2012; liquidation preference of $135,000,000	54	54
3,450,000 Series E convertible shares issued at September 30, 2013 and December 31, 2012; liquidation preference of $86,250,000	35	35
5,000,000 Series F shares issued at September 30, 2013 and December 31, 2012; liquidation preference of $125,000,000	50	50
Additional paid-in-capital	1,825,293	1,769,227
Treasury shares at cost: 1,706,109 and 1,566,780 common shares at September 30, 2013 and December 31, 2012, respectively	(62,177)	(55,308)
Accumulated other comprehensive income	17,536	20,622
Distributions in excess of net income	(288,204)	(275,643)
EPR Properties shareholders’ equity	1,493,084	1,459,521
Noncontrolling interests	377	377
Total equity	$1,493,461	$1,459,898
Total liabilities and equity	$3,135,273	$2,946,730

See accompanying notes to consolidated financial statements.

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EPR PROPERTIES
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Rental revenue	$62,209	$59,755	$182,758	$174,364
Tenant reimbursements	4,552	4,608	13,748	13,794
Other income	1,441	203	1,538	336
Mortgage and other financing income	19,639	16,976	55,670	46,861
Total revenue	87,841	81,542	253,714	235,355
Property operating expense	6,579	5,939	19,604	17,999
Other expense	204	455	508	1,049
General and administrative expense	6,764	5,486	19,468	17,774
Costs associated with loan refinancing or payoff	223	477	6,166	477
Gain on early extinguishment of debt	—	—	(4,539)	—
Interest expense, net	20,435	19,994	60,424	56,594
Transaction costs	317	184	859	373
Impairment charges	—	—	—	1,914
Depreciation and amortization	13,141	11,733	39,140	34,497
Income before equity in income from joint ventures and discontinued operations	40,178	37,274	112,084	104,678
Equity in income from joint ventures	351	342	1,168	666
Income from continuing operations	$40,529	$37,616	$113,252	$105,344
Discontinued operations:				
Income (loss) from discontinued operations	(195)	(355)	198	334
Impairment charges	—	(3,086)	—	(14,015)
Gain on sale or acquisition of real estate	3,168	—	3,733	720
Net income	43,502	34,175	117,183	92,383
Net income attributable to noncontrolling interests	—	(24)	—	(61)
Net income attributable to EPR Properties	43,502	34,151	117,183	92,322
Preferred dividend requirements	(5,951)	(6,002)	(17,855)	(18,005)
Net income available to common shareholders of EPR Properties	$37,551	$28,149	$99,328	$74,317
Per share data attributable to EPR Properties common shareholders:				
Basic earnings per share data:				
Income from continuing operations	$0.73	$0.67	$2.03	$1.87
Income (loss) from discontinued operations	0.06	(0.07)	0.08	(0.28)
Net income available to common shareholders	$0.79	$0.60	$2.11	$1.59
Diluted earnings per share data:				
Income from continuing operations	$0.73	$0.67	$2.02	$1.86
Income (loss) from discontinued operations	0.06	(0.07)	0.08	(0.28)
Net income available to common shareholders	$0.79	$0.60	$2.10	$1.58
Shares used for computation (in thousands):				
Basic	47,349	46,840	47,097	46,781
Diluted	47,524	47,090	47,290	47,035

See accompanying notes to consolidated financial statements.

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EPR PROPERTIES
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$43,502	$34,175	$117,183	$92,383
Other comprehensive income (loss):				
Foreign currency translation adjustment	4,548	4,979	(6,139)	4,855
Change in unrealized gain (loss) on derivatives	(7,404)	(5,030)	3,053	(7,689)
Comprehensive income	40,646	34,124	114,097	89,549
Comprehensive income attributable to the noncontrolling interests	—	(24)	—	(61)
Comprehensive income attributable to EPR Properties	$40,646	$34,100	$114,097	$89,488

See accompanying notes to consolidated financial statements.

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EPR PROPERTIES
Consolidated Statements of Changes in Equity
Nine Months Ended September 30, 2013
(Unaudited)
(Dollars in thousands)

	EPR Properties Shareholders' Equity									
	Common Stock		Preferred Stock							
	Shares	Par	Shares	Par	Additional paid-in capital	Treasury shares	Accumulated other comprehensive income	Distributions in excess of net income	Noncontrolling Interests	Total
Balance at December 31, 2012	48,454,181	$484	13,850,000	$139	$1,769,227	$(55,308)	$20,622	$(275,643)	$377	$1,459,898
Restricted share units issued to Trustees	16,038	—	—	—	1,024	—	—	—	—	1,024
Issuance of nonvested shares, net	196,928	2	—	—	2,588	(3,425)	—	—	—	(835)
Amortization of nonvested shares	—	—	—	—	3,619	—	—	—	—	3,619
Share option expense	—	—	—	—	647	—	—	—	—	647
Foreign currency translation adjustment	—	—	—	—	—	—	(6,139)	—	—	(6,139)
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	3,053	—	—	3,053
Net income	—	—	—	—	—	—	—	117,183	—	117,183
Issuances of common shares	885,890	9	—	—	43,799	—	—	—	—	43,808
Stock option exercises, net	143,272	2	—	—	4,389	(3,444)	—	—	—	947
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(129,744)	—	(129,744)
Balance at September 30, 2013	49,696,309	$497	13,850,000	$139	$1,825,293	$(62,177)	$17,536	$(288,204)	$377	$1,493,461

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	$117,183	$92,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on early extinguishment of debt	(4,539)	—
Non-cash impairment charges	—	1,914
Loss (income) from discontinued operations	(3,931)	12,961
Costs associated with loan refinancing or payoff	6,166	477
Equity in income from joint ventures	(1,168)	(666)
Distributions from joint ventures	630	827
Depreciation and amortization	39,140	34,497
Amortization of deferred financing costs	2,997	3,224
Share-based compensation expense to management and Trustees	4,825	4,416
Decrease (increase) in restricted cash	12,638	(2,695)
Increase in mortgage notes accrued interest receivable	(1,240)	(828)
Increase in accounts receivable, net	(4,542)	(4,652)
Increase in direct financing lease receivable	(3,638)	(3,730)
Decrease (increase) in other assets	1,400	(803)
Decrease in accounts payable and accrued liabilities	(9,327)	(2,692)
Increase (decrease) in unearned rents and interest	(441)	2,478
Net operating cash provided by continuing operations	156,153	137,111
Net operating cash provided by discontinued operations	2,222	8,330
Net cash provided by operating activities	158,375	145,441
Investing activities:		
Acquisition of rental properties and other assets	(27,199)	(42,094)
Proceeds from sale of real estate	796	—
Investment in unconsolidated joint ventures	(1,021)	(1,131)
Investment in mortgage notes receivable	(56,864)	(71,908)
Proceeds from mortgage note receivable paydown	1,835	—
Investment in promissory notes receivable	(1,278)	—
Proceeds from promissory note receivable paydown	1,026	—
Investment in a direct financing lease, net	(3,262)	—
Proceeds from sale of investment in a direct financing lease, net	—	4,494
Additions to properties under development	(144,525)	(88,965)
Net cash used by investing activities of continuing operations	(230,492)	(199,604)
Net proceeds from sale of real estate from discontinued operations	46,490	12,969
Net cash used by investing activities	(184,002)	(186,635)
Financing activities:		
Proceeds from long-term debt facilities	549,000	798,000
Principal payments on long-term debt	(384,831)	(616,400)
Deferred financing fees paid	(8,106)	(5,797)
Costs associated with loan refinancing or payoff (cash portion)	(5,790)	(38)
Net proceeds from issuance of common shares	43,659	179
Impact of stock option exercises, net	947	(485)

Purchase of common shares for treasury	(3,246)	(3,232)
Dividends paid to shareholders	(152,195)	(120,856)
Net cash provided by financing activities	39,438	51,371
Effect of exchange rate changes on cash	(334)	205
Net increase in cash and cash equivalents	13,477	10,382
Cash and cash equivalents at beginning of the period	10,664	14,625
Cash and cash equivalents at end of the period	$24,141	$25,007

Supplemental information continued on next page.

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

	Nine Months Ended September 30,	
	2013	2012
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	$83,685	$75,172
Acquisiton of real estate in exchange for assumption of debt at fair value	$19,710	$—
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	$10,398	$7,181
Conversion of equity to mortgage note receivable related to Atlantic-EPR I	$—	$14,852
Adjustment of noncontrolling interest to additional paid in capital	$—	$27,785
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$66,494	$56,566
Cash received during the year for income taxes	$(116)	$(521)

See accompanying notes to consolidated financial statements.

EPR PROPERTIES
Notes to Consolidated Financial Statements (Unaudited)

1. Organization

Description of Business
EPR Properties (the Company) is a specialty real estate investment trust (REIT) organized on August 29, 1997 in Maryland. Effective November 12, 2012, the Company updated its name from Entertainment Properties Trust to EPR Properties. The Company develops, owns, leases and finances properties in select market segments primarily related to entertainment, education and recreation. The Company’s properties are located in the United States and Canada.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. In addition, operating results for the nine month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The Company consolidates certain entities when it is deemed to be the primary beneficiary in a variable interest entity (VIE), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic on Consolidation. The Topic on Consolidation requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This topic requires an ongoing reassessment. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in the Consolidation Topic of the FASB ASC, or does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

The Company reports its noncontrolling interests as required by the Consolidation Topic of the FASB ASC. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in the subsidiary that are held by owners other than the parent are noncontrolling interests. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of income, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Consolidated statements of changes in shareholders' equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for equity, noncontrolling interests and total equity. The Company does not have any redeemable noncontrolling interests.

The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (SEC) on February 27, 2013.

Operating Segments

For financial reporting purposes, the Company groups its investments into four reportable operating segments: entertainment, education, recreation and other. See Note 16 for financial information related to these operating segments.

Rental Properties

Rental properties are carried at cost less accumulated depreciation. Costs incurred for the acquisition and development of the properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 40 years for buildings and 3 to 25 years for furniture, fixtures and equipment. Tenant improvements, including allowances, are depreciated over the shorter of the base term of the lease or the estimated useful life. Expenditures for ordinary maintenance and repairs are charged to operations in the period incurred. Significant renovations and improvements that improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful life.

Management reviews a property for impairment whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based on an estimate of undiscounted future cash flows expected to result from its use and eventual disposition. If impairment exists due to the inability to recover the carrying value of the property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value.

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

Allowance for Doubtful Accounts

The Company makes estimates of the collectability of its accounts receivable related to base rents, tenant escalations (straight-line rents), reimbursements and other revenue or income. The Company specifically analyzes trends in accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. When evaluating customer creditworthiness, management reviews the periodic financial statements for significant tenants and specifically evaluates the strength and material changes in net operating income, coverage ratios, leverage and other factors to assess the tenant's credit quality. In addition, when customers are in bankruptcy, the Company makes estimates of the expected recovery of pre-petition administrative and damage claims. These estimates have a direct impact on the Company's net income.

Revenue Recognition

Rents that are fixed and determinable are recognized on a straight-line basis over the minimum terms of the leases. Base rent escalation on leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. In addition, most of the Company's tenants are subject to additional rents if gross revenues of the properties exceed certain thresholds defined in the lease agreements (percentage rents). Percentage rents as well as participating interest for those mortgage agreements that contain similar such clauses are recognized at the time when specific triggering events occur as provided by the lease or mortgage agreements. Rental revenue included percentage rents of $2.2 million and $1.1 million for the nine months ended September 30, 2013 and 2012, respectively. Mortgage and
other financing income included participating interest income of $0.9 million and $0.8 million for the nine months ended September 30, 2013 and 2012, respectively. Lease termination fees are recognized when the related leases are canceled and the Company has no obligation to provide services to such former tenants. Termination fees of $8 thousand and $105 thousand were recognized during the nine months ended September 30, 2013 and 2012, respectively.

Direct financing lease income is recognized on the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent management's initial estimates of fair value of the leased assets at the expiration of the lease, not to exceed original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real estate values. The Company evaluates on an annual basis (or more frequently, if necessary) the collectability of its

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direct financing lease receivable and unguaranteed residual value to determine whether they are impaired. A direct financing lease receivable is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a direct financing lease receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the direct financing lease receivable's effective interest rate or to the fair value of the underlying collateral, less costs to sell, if such receivable is collateralized.

Mortgage Notes and Other Notes Receivable
Mortgage notes and other notes receivable, including related accrued interest receivable, consist of loans originated by the Company and the related accrued and unpaid interest income as of the balance sheet date. Mortgage notes and other notes receivable are initially recorded at the amount advanced to the borrower and the Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them over the term of the related loan. Interest income on performing loans is accrued as earned. The Company evaluates the collectability of both interest and principal of each of its loans to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, the Company determines that it is probable that it will be unable to collect all amounts due according to the existing contractual terms. An insignificant delay or shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. When a loan is considered to be impaired, the amount of loss, if any, is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan’s effective interest rate or to the fair value of the Company’s interest in the underlying collateral, less costs to sell, if the loan is collateral dependent. For impaired loans, interest income is recognized on a cash basis, unless the Company determines based on the loan to estimated fair value ratio the loan should be on the cost recovery method, and any cash payments received would then be reflected as a reduction of principal. Interest income recognition is recommenced if and when the impaired loan becomes contractually current and performance is demonstrated to be resumed.

Concentrations of Risk
American Multi-Cinema, Inc. (AMC) was the lessee of a substantial portion (30%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at September 30, 2013 as a result of a series of sale leaseback transactions pertaining to AMC megaplex theatres. A substantial portion of the Company’s total revenues (approximately $63.6 million or 25% and $73.1 million or 31%, for the nine months ended September 30, 2013 and 2012, respectively) result from the revenue from AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC’s obligations under the leases. AMCE is wholly owned by Dalian Wanda Group Co. Ltd. and has publicly held debt and the following financial information was reported in its consolidated financial information which is publicly available. AMCE publicly reported total assets of $4.3 billion and $3.6 billion and total stockholders' equity of $774.1 million and $154.3 million at December 31, 2012 and March 29, 2012, respectively. Additionally, AMCE publicly reported total liabilities of $3.5 billion at both December 31, 2012 and March 29, 2012. AMCE publicly reported net earnings of $57.3 million for the transition period beginning on March 30, 2012 and ending December 31, 2012, a net loss of $82.0 million for the fifty-two weeks ended March 29, 2012 and a net loss of $122.9 million for the fifty-two weeks ended March 31, 2011. In addition, AMCE reported net earnings of $45.8 million for the six months ended June 30, 2013.

For the nine months ended September 30, 2013 and 2012, approximately $31.7 million or 13%, and $32.0 million or 14%, respectively, of total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada. The Company's wholly owned subsidiaries that hold the four Canadian entertainment retail centers represent approximately $223.4 million or 15% of the Company's net assets at September 30, 2013. The third party debt held by these subsidiaries was repaid during the three months ended June 30, 2013. See Note 8 for further details. The Company's wholly owned subsidiaries that hold the four Canadian entertainment retail centers and third party debt represented approximately $147.3 million or 10%, of the Company's net assets as of December 31, 2012.

Share-Based Compensation

Share-based compensation to employees of the Company is granted pursuant to the Company's Annual Incentive Program and Long-Term Incentive Plan. Share-based compensation to non-employee Trustees of the Company is granted pursuant to the Company's Trustee compensation program and shares are issued under the 2007 Equity Incentive Plan.

Share-based compensation expense consists of share option expense, amortization of nonvested share grants, and amortization of share units issued to non-employee Trustees for payment of their annual retainers. Share-based compensation is included in general and administrative expense in the accompanying consolidated statements of income, and totaled $4.8 million and $4.4 million for the nine months ended September 30, 2013 and 2012, respectively.

Share Options

Share options are granted to employees pursuant to the Long-Term Incentive Plan and to non-employee Trustees for their service to the Company. The fair value of share options granted is estimated at the date of grant using the Black-Scholes option pricing model. Share options granted to employees vest over a period of four years and share option expense for these options is recognized on a straight-line basis over the vesting period. Share options granted to non-employee Trustees vest immediately but may not be exercised for a period of one year from the grant date. Share option expense for non-employee Trustees is recognized on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to share options was $647 thousand and $709 thousand for the nine months ended September 30, 2013 and 2012, respectively.

Nonvested Shares Issued to Employees

The Company grants nonvested shares to employees pursuant to both the Annual Incentive Program and the Long-Term Incentive Plan. The Company amortizes the expense related to the nonvested shares awarded to employees under the Long-Term Incentive Plan and the premium awarded under the nonvested share alternative of the Annual Incentive Program on a straight-line basis over the future vesting period (three to four years). Total expense recognized related to all nonvested shares was $3.6 million and $3.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Restricted Share Units Issued to Non-Employee Trustees

The Company issues restricted share units to non-employee Trustees for payment of their annual retainers. The fair value of the share units granted was based on the share price at the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. This expense is amortized by the Company on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to shares issued to non-employee Trustees was $559 thousand, and $372 thousand for the nine months ended September 30, 2013 and 2012, respectively.

Derivative Instruments

The Company has acquired certain derivative instruments to reduce exposure to fluctuations in foreign currency exchange rates and variable interest rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These derivatives consist of foreign currency forward contracts, cross-currency swaps and interest rate swaps.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged

risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In conjunction with the FASB's fair value measurement guidance in FASB ASU 2011-04 (Amendments to ASC 820), the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current period presentation for asset groups that qualify for presentation as discontinued operations.

3. Rental Properties

The following table summarizes the carrying amounts of rental properties as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Buildings and improvements	$1,817,815	$1,734,300
Furniture, fixtures & equipment	18,271	34,028
Land	495,733	492,449
	2,331,819	2,260,777
Accumulated depreciation	(398,037)	(375,684)
Total	$1,933,782	$1,885,093

Depreciation expense on rental properties was $36.8 million and $32.3 million for the nine months ended September 30, 2013 and 2012, respectively.

4. Investments and Dispositions

The Company's investment spending during the nine months ended September 30, 2013 totaled $252.8 million, and included investments in each of its four operating segments.

Entertainment investment spending during the nine months ended September 30, 2013 totaled $90.4 million, and was related primarily to investments in build-to-suit construction of eight megaplex theatres and two family entertainment centers that are subject to long-term triple net leases or long-term mortgage agreements. In addition, the Company's $90.4 million investment spending included the acquisition of three megaplex theatres located in Louisiana and Alabama, which are leased under long-term triple net lease agreements.

Education investment spending during the nine months ended September 30, 2013 totaled $116.0 million, and was related to investments in build-to-suit construction of 16 public charter schools and five early childhood education centers, as well as the acquisition of one early childhood education center located in Peoria, Arizona, each of which is subject to a long-term triple net lease or long-term mortgage agreement. In addition, the Company's $116.0 million investment spending included the acquisition of a public charter school in Columbia, South Carolina for $3.3 million that is leased under the master lease to Imagine Schools, Inc. (Imagine). See Note 6 for further details on this acquisition.

Recreation investment spending during the nine months ended September 30, 2013 totaled $42.2 million, and was related to fundings under the Company's mortgage notes for improvements at existing ski and water-park properties. In addition, the Company's $42.2 million recreation investment spending related to build-to-suit construction of six TopGolf golf entertainment facilities, as well as funding improvements at the Company's ski property located in Maryland.

Other investment spending during the nine months ended September 30, 2013 totaled $4.2 million and was related to the land held for development in Sullivan County, New York.

During the nine months ended September 30, 2013, the Company sold four winery and vineyard properties located in California. The total proceeds for these sales were $46.5 million and the Company recognized a net gain of $3.7 million. The results of operations of these properties have been classified within discontinued operations.

Additionally, during the nine months ended September 30, 2013, the Company extended the maturity of its mortgage loan agreement with Peak Resorts, Inc. from April 1, 2013 to April 1, 2016. The loan is secured by 696 acres of development land at Mt. Snow.

5. Accounts Receivable, Net

The following table summarizes the carrying amounts of accounts receivable, net as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Receivable from tenants	$9,778	$9,379
Receivable from non-tenants	125	1,527
Receivable from Canada Revenue Agency	844	793
Straight-line rent receivable	32,384	30,891
Allowance for doubtful accounts	(2,805)	(3,852)
Total	$40,326	$38,738

6. Investment in a Direct Financing Lease

The Company's investment in a direct financing lease relates to the Company's master lease of 27 and 26 public charter school properties as of September 30, 2013 and December 31, 2012, respectively, with affiliates of Imagine. Investment in a direct financing lease, net represents estimated unguaranteed residual values of leased assets and net unpaid rentals, less related deferred income. The following table summarizes the carrying amounts of investment in a direct financing lease, net as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Total minimum lease payments receivable	$639,413	$648,632
Estimated unguaranteed residual value of leased assets	215,207	211,944
Less deferred income [(1)]	(613,630)	(626,487)
Investment in a direct financing lease, net	$240,990	$234,089

[(1)] Deferred income is net of $1.7 million of initial direct costs at September 30, 2013 and December 31, 2012.

Additionally, the Company has determined that no allowance for losses was necessary at September 30, 2013 and December 31, 2012.

On May 17, 2013, per the terms of the master lease of public charter schools with Imagine, the Company exchanged three St. Louis, Missouri schools for one located in Columbus, Ohio, one located in Dayton, Ohio and another located in Toledo, Ohio. In conjunction with this exchange, the Company completed the acquisition of a public charter school in Columbia, South Carolina for $3.3 million that is leased under the master lease to Imagine. Additionally, subsequent to September 30, 2013, the Company exchanged one St. Louis, Missouri school for one located in Columbus, Ohio. There was no impact on the Company's investment in direct financing lease as a result of these exchanges.

The Company's direct financing lease has expiration dates ranging from approximately 19 to 22 years. Future minimum rentals receivable on this direct financing lease at September 30, 2013 are as follows (in thousands):

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	Amount
Year:	
2013	$6,029
2014	24,609
2015	25,343
2016	26,104
2017	26,887
Thereafter	530,441
Total	$639,413

7. Unconsolidated Real Estate Joint Ventures

At September 30, 2013, the Company had a 48.5% and 32.7% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively, and the remaining interests in these joint ventures were held by the Company's partner, Atlantic of Hamburg, Germany (Atlantic). Subsequent to September 30, 2013, the Company purchased Atlantic's interests in each of these joint ventures. The Company accounted for its investment in these joint ventures under the equity method of accounting.

On August 30, 2013, the Company entered into an $11.8 million secured first mortgage loan agreement with an interest rate of 6.50% with Tampa Veterans, LP, the entity that holds title to the underlying assets in the Atlantic-EPR II joint venture, to pay off the partnership's loan at maturity. The loan was subsequently settled with the Company's acquisition of Atlantic's interest in this joint venture.

The Company recognized income of $498 thousand and $371 thousand during the nine months ended September 30, 2013 and 2012, respectively, from its equity investments in the Atlantic-EPR I and Atlantic-EPR II joint ventures. The Company also received distributions from Atlantic-EPR I and Atlantic-EPR II of $630 thousand and $828 thousand on its equity investment during the nine months ended September 30, 2013 and 2012, respectively. Condensed consolidated financial information for Atlantic-EPR I and Atlantic-EPR II is as follows as of and for the nine months ended September 30, 2013 and 2012 (in thousands):

	2013	2012
Rental properties, net	$44,667	$45,772
Cash	221	255
Atlantic-EPR II mortgage note payable to EPR Properties (1)	11,796	117
Mortgage note payable (2)	—	11,929
Atlantic-EPR I mortgage note payable to EPR Properties (1)	21,293	16,262
Partners’ equity	18,395	18,794
Rental revenue	4,253	4,204
Net income	1,408	1,354

(1) Atlantic-EPR I and Atlantic-EPR II mortgage notes payable to EPR Properties were settled with the Company's acquisition of Atlantic's interests in each of these joint ventures subsequent to September 30, 2013.
(2) Atlantic-EPR II mortgage note payable was paid in full on September 1, 2013.

The partnership agreements for Atlantic-EPR I and Atlantic-EPR II allowed the Company’s partner, Atlantic, to exchange up to a maximum of 10% of its ownership interest per year in each of the joint ventures for common shares of the Company or, at the Company's discretion, the cash value of those shares as defined in each of the partnership agreements. During 2012, the Company paid Atlantic cash of $1.3 million and $490 thousand in exchange for additional ownership of 6.0% and 3.8% for Atlantic-EPR I and Atlantic-EPR II, respectively. During 2013, prior to the Company's acquisition

of Atlantic's remaining interests in each of these joint ventures on October 8, 2013, the Company paid Atlantic cash of $1.2 million and $424 thousand in exchange for additional ownership of 6.4% and 3.2% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of September 30, 2013 and December 31, 2012, the Company had invested $5.4 million and $4.7 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. The Company recognized income of $670 thousand and $295 thousand from its investment in these joint ventures for the nine months ended September 30, 2013 and 2012, respectively.

8. Long-Term Debt

On March 4, 2013, the Company entered into a Discounted Payoff and Settlement Agreement (the Agreement) regarding one of its loan agreements secured by a theatre property located in Omaha, Nebraska. Pursuant to the Agreement, the Company made a cash payment of $9.7 million that included a forfeited restricted cash account with a balance of $1.2 million in full satisfaction of the loan. Accordingly, the Company recorded a gain on early extinguishment of debt of $4.5 million during the nine months ended September 30, 2013.

On June 18, 2013, the Company issued $275.0 million in senior notes due on July 15, 2023. The notes bear interest at 5.25%. Interest is payable on January 15 and July 15 of each year beginning on January 15, 2014 until the stated maturity date of July 15, 2023. The notes were issued at 99.546% of their face value and are unsecured and guaranteed by certain of the Company's subsidiaries. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of the Company's debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of the Company's secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause the Company's debt service coverage ratio to be less than 1.5 times and (iv) the maintenance at all times of the Company's total unencumbered assets such that they are not less than 150% of the Company's outstanding unsecured debt.

The Company used the proceeds from the note offering to (i) repay $89.5 million CAD ($87.9 million US) of outstanding fixed rate mortgage debt secured by four entertainment retail centers located in Ontario, Canada, (ii) repay $56.4 million of outstanding fixed rate mortgage debt secured by the Company's entertainment retail center located in New Rochelle, New York and (iii) partially pay down the Company's unsecured revolving credit facility. In connection with the repayment in full of the mortgage notes, $239 thousand of deferred financing costs (net of accumulated amortization) were written off and $5.7 million of additional costs associated with loan payoff were incurred.

On March 5, 2013, the Company increased the size of its unsecured term loan facility from $240.0 million to $255.0 million. Additionally, on July 23, 2013, the Company amended and restated both its unsecured revolving credit facility as well as its unsecured term loan facility.

The amendments to the unsecured revolving credit facility (i) increase the initial amount from $400.0 million to $440.0 million and increase the accordion such that the maximum borrowing amount available under the facility increased from $500.0 million to $600.0 million , (ii) extend the maturity date from October 13, 2015, to July 23, 2017 (with the Company having the same right as before to extend the loan for one additional year, subject to certain terms and conditions), (iii) lower the interest rate and facility fee pricing based on a grid related to the Company's senior unsecured credit ratings which was LIBOR plus 1.40% and 0.30%, respectively, at closing, (iv) revise certain definitions to broaden the types of properties eligible for consideration in the borrowing base, (v) increase borrowing base availability by increasing the values assigned to the Company's properties and (vi) add four new subsidiary borrowers. The Company subsequently exercised a portion of the accordion under its new unsecured revolving credit facility to increase the initial borrowing amount available under the facility from $440.0 million to $475.0 million. At September 30, 2013, the Company had $68.0 million debt outstanding under this facility.

The amendments to the unsecured term loan facility (i) increase the initial amount from $255.0 million to $265.0 million and increase the accordion such that the maximum amount available under the facility increased from $350.0 million to $400.0 million, (ii) extend the maturity date from January 5, 2017, to July 23, 2018, (iii) lower the interest rate in

all but the lowest senior unsecured credit rating tiers which was LIBOR plus 1.60% at closing and (iv) add four new subsidiary borrowers.

On August 20, 2013, the Company assumed $14.4 million in economic development revenue bonds in conjunction with the acquisition of two theatre properties. The bonds have a stated maturity date of October 1, 2037 and bear interest at a variable rate which resets on a weekly basis and was 0.08% at September 30, 2013. The bonds require monthly interest only payments with principal due at maturity.

On September 25, 2013, the Company assumed a mortgage note payable of $5.4 million in conjunction with the acquisition of a theatre property. The note bears interest at a fixed rate of 5.39% and matures on November 1, 2015. The note requires monthly principal and interest payments of approximately $50 thousand with a final principal payment at maturity of $4.7 million. Upon acquisition, the carrying value of the note approximated fair value.

9. Variable Interest Entities

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

Consolidated VIEs

As of September 30, 2013, the Company had invested in one 50% joint venture which is a VIE. This joint venture did not have any significant assets and liabilities at September 30, 2013 and was established to explore certain investment opportunities.

Unconsolidated VIE

At September 30, 2013, the Company's recorded investment in SVVI, a VIE that is unconsolidated, was $184.3 million. The Company's maximum exposure to loss associated with SVVI is limited to the Company's outstanding mortgage note and related accrued interest receivable of $184.3 million. While this entity is a VIE, the Company has determined that the power to direct the activities of the VIE that most significantly impact the VIE's economic performance is not held by the Company.

10. Derivative Instruments

All derivatives are recognized at fair value in the consolidated balance sheets within the line items "Other assets" and "Accounts payable and accrued liabilities" as applicable. The Company's derivatives are subject to a master netting arrangement and the Company has elected not to offset its derivative position for purposes of balance sheet presentation and disclosure. The Company had derivative liabilities of $5.7 million and $8.1 million recorded in “Accounts payable and accrued liabilities” and derivative assets of $0.7 million and $0.1 million recorded in “Other assets” in the consolidated balance sheet at September 30, 2013 and December 31, 2012, respectively. Had the Company elected to offset derivatives in the consolidated balance sheet pursuant to ASU 210-20-45, the Company would have had derivative assets of approximately $0.7 million and derivative assets of $0.1 million that would have been offset against the respective derivative liabilities of $5.7 million and liabilities of $8.1 million, resulting in a net derivative liability of $5.0 million (with no derivative asset) at September 30, 2013, and a net derivative liability of $8.0 million (with no derivative asset) at December 31, 2012. The Company has not posted or received collateral with its derivative counterparties as of September 30, 2013 or December 31, 2012. See Note 11 for disclosures relating to the fair value of the derivative instruments as of September 30, 2013 and December 31, 2012.

Risk Management Objective of Using Derivatives
The Company is exposed to the effect of changes in foreign currency exchange rates and interest rates on its LIBOR based borrowings. The Company limits this risk by following established risk management policies and procedures including the use of derivatives. The Company’s objective in using derivatives is to add stability to reported earnings and to manage its exposure to foreign exchange and interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps, cross-currency swaps and foreign currency forwards.

Cash Flow Hedges of Interest Rate Risk
The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements on its LIBOR based borrowings. To accomplish this objective, the Company currently uses interest rate swaps as its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

On January 5, 2012, the Company entered into three interest rate swap agreements to fix the interest rate on a $240.0 million unsecured term loan facility that closed on the same day. These agreements have a combined outstanding notional amount of $240.0 million, a termination date of January 5, 2016 and provide for a fixed rate on this debt of 2.51%. On September 6, 2013, the Company entered into three interest rate swap agreements to further fix the interest rate on $240.0 million of the unsecured term loan facility at 2.38% from January 5, 2016 to July 5, 2017.

The effective portion of changes in the fair value of interest rate derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended September 30, 2013 and 2012, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on cash flow hedges was recognized during the nine months ended September 30, 2013 and 2012.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. As of September 30, 2013, the Company estimates that during the twelve months ending September 30, 2014, $1.7 million will be reclassified from AOCI to interest expense.

Cash Flow Hedges of Foreign Exchange Risk
The Company is exposed to foreign currency exchange risk against its functional currency, the U.S. dollar, on its four Canadian properties. The Company uses cross currency swaps and foreign currency forwards to mitigate its exposure

to fluctuations in the CAD to U.S. dollar exchange rate on its Canadian properties. These foreign currency derivatives should hedge a significant portion of the Company's expected CAD denominated cash flow of the Canadian properties as their impact on the Company's cash flow when settled should move in the opposite direction of the exchange rates used to translate revenues and expenses of these properties.

As of September 30, 2013, the Company had cross-currency swaps with a fixed original notional value of $76.0 million CAD and $71.5 million U.S. The net effect of these swaps is to lock in an exchange rate of $1.05 CAD per U.S. dollar on approximately $13.0 million of annual CAD denominated cash flows on the properties through February 2014. Additionally, on June 19, 2013, the Company entered into cross-currency swaps that will be effective March 1, 2014 with a fixed original notional value of $100.0 million CAD and $98.1 million U.S. The net effect of these swaps is to lock in an exchange rate of $1.05 CAD per U.S. dollar on approximately $13.5 million of annual CAD denominated cash flows on the properties through June 2018.

The Company entered into foreign currency forward agreements to further hedge the currency fluctuations related to the cash flows of these properties. The agreements settled or settle at the end of each month from January to December 2013. These agreements lock in an exchange rate of $0.98 CAD to $0.99 CAD per U.S. dollar on approximately $500 thousand of monthly CAD denominated cash flows.

The effective portion of changes in the fair value of foreign currency derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in AOCI and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative, as well as amounts excluded from the assessment of hedge effectiveness, is recognized directly in earnings. No hedge ineffectiveness on foreign currency derivatives has been recognized for the nine months ended September 30, 2013 and 2012. As of September 30, 2013, the Company estimates that during the twelve months ending September 30, 2014, $0.1 million will be reclassified from AOCI to other income.

Net Investment Hedges
As discussed above, the Company is exposed to fluctuations in foreign exchange rates on its four Canadian properties. As such, the Company uses currency forward agreements to hedge its exposure to changes in foreign exchange rates. Currency forward agreements involve fixing the CAD to U.S. dollar exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward agreements are typically cash settled in US dollars for their fair value at or close to their settlement date. In order to hedge the net investment in four of the Canadian properties, the Company entered into a forward contract with a fixed notional value of $100.0 million CAD and $96.1 million U.S. with a February 2014 settlement. The exchange rate of this forward contract is approximately $1.04 CAD per U.S. dollar. Additionally, on June 19, 2013, the Company entered into a forward contract with a fixed notional value of $100.0 million CAD and $94.3 million U.S. with a July 2018 settlement date. The exchange rate of this forward contract is approximately $1.06 CAD per U.S. dollar. These forward contracts should hedge a significant portion of the Company's CAD denominated net investment in these four centers through July 2018 as the impact on AOCI from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of these four Canadian properties.

For foreign currency derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in AOCI as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on net investment hedges has been recognized for nine months ended September 30, 2013 and 2012. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 11 for disclosure relating to the fair value of the Company's derivative instruments. Below is a summary of the effect of derivative instruments on the consolidated statements of changes in equity and income for the three and nine months ended September 30, 2013 and 2012.

Effect of Derivative Instruments on the Consolidated Statements of Changes in Equity and Income for the Three and Nine Months Ended September 30, 2013 and 2012
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Description	2013	2012	2013	2012
Interest Rate Swaps				
Amount of Loss Recognized in AOCI on Derivative (Effective Portion)	$(2,985)	$(1,540)	$(2,399)	$(5,466)
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion) (1)	(442)	(410)	(1,296)	(1,188)
Cross Currency Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	(1,333)	(737)	746	(851)
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion) (2)	(34)	(179)	(185)	(454)
Currency Forward Agreements				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	(3,489)	(3,363)	3,417	(3,019)
Amount of Income Reclassified from AOCI into Earnings (Effective Portion) (2)	73	(21)	192	(5)
Total				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(7,807)	$(5,640)	$1,764	$(9,336)
Amount of Expense Reclassified from AOCI into Earnings (Effective Portion)	(403)	(610)	(1,289)	(1,647)

(1) Included in "Interest expense, net" in the accompanying consolidated statements of income for the three and nine months ended September 30, 2013 and 2012.

(2) Included in "Other income" and “Other expense” in the accompanying consolidated statements of income for the three and nine months ended September 30, 2013 and 2012.

Credit-risk-related Contingent Features

The Company has agreements with each of its interest rate derivative counterparties that contain a provision where if the Company defaults on any of its obligations for borrowed money or credit in an amount exceeding $25.0 million and such default is not waived or cured within a specified period of time, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its interest rate derivative obligations.

As of September 30, 2013, the fair value of the Company’s derivatives in a liability position related to these agreements was $5.7 million. If the Company breached any of the contractual provisions of the derivative contracts, it would be required to settle its obligations under the agreements at their termination value of $5.9 million.

11. Fair Value Disclosures

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

As a basis for considering market participant assumptions in fair value measurements, the FASB's Fair Value Measurements and Disclosures guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs

are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Derivative Financial Instruments

The Company uses interest rate swaps, foreign currency forwards and cross-currency swaps to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives also use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of September 30, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives and therefore, has classified its derivatives as Level 2 within the fair value reporting hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 aggregated by the level in the fair value hierarchy within which those measurements are classified and by derivative type.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at
September 30, 2013 and December 31, 2012
(Dollars in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Balance at end of period	
September 30, 2013:						
Cross-Currency Swaps*	$—	$300		$—	$300	
Cross-Currency Swaps**	—	(78	)	—	(78	)
Currency Forward Agreements*	$—	$448		$—	$448	
Currency Forward Agreements**	—	(675	)	—	(675	)
Interest Rate Swap Agreements**	$—	$(4,951	)	$—	$(4,951	)
December 31, 2012:						

Cross-Currency Swaps**	$—	$(709)	$—	$(709)
Currency Forward Agreements**	$—	$(3,453)	$—	$(3,453)
Interest Rate Swap Agreements**	$—	$(3,848)	$—	$(3,848)

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

Non-recurring fair value measurements
There were no assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2013.

Fair Value of Financial Instruments
Management compares the carrying value to the estimated fair value of the Company’s financial instruments. The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments at September 30, 2013 and December 31, 2012:

Mortgage notes receivable and related accrued interest receivable:
The fair value of the Company’s mortgage notes and related accrued interest receivable is estimated by discounting the future cash flows of each instrument using current market rates. At September 30, 2013, the Company had a carrying value of $514.1 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 9.01%. The fixed rate mortgage notes bear interest at rates of 6.50% to 11.31%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of 9.00% to 11.31%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately $491.0 million with an estimated weighted average market rate of 10.07% at September 30, 2013.

At December 31, 2012, the Company had a carrying value of $455.8 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.96%. The fixed rate mortgage notes bear interest at rates of 7.00% to 11.31%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of 9.00% to 11.31%, management estimates the fair value of the fixed rate mortgage notes receivable to be $431.2 million with an estimated weighted average market rate of 10.07% at December 31, 2012.

Investment in a direct financing lease, net:
The fair value of the Company’s investment in a direct financing lease is estimated by discounting the future cash flows of the instrument using current market rates. At September 30, 2013 and December 31, 2012, the Company had an investment in a direct financing lease with a carrying value of $241.0 million and $234.1 million, respectively, and a weighted average effective interest rate of 12.01% and 12.02%, respectively. The investment in direct financing lease bears interest at effective interest rates of 11.74% to 12.38%. The carrying value of the investment in a direct financing lease approximates the fair market value at September 30, 2013 and December 31, 2012.

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

Debt instruments:
The fair value of the Company's debt is estimated by discounting the future cash flows of each instrument using current market rates. At September 30, 2013, the Company had a carrying value of $358.0 million in variable rate debt outstanding with a weighted average interest rate of approximately 1.62%. The carrying value of the variable rate debt outstanding approximates the fair market value at September 30, 2013.

At December 31, 2012, the Company had a carrying value of $289.6 million in variable rate debt outstanding with an average weighted interest rate of approximately 1.88%. The carrying value of the variable rate debt outstanding approximates the fair market value at December 31, 2012.

At September 30, 2013 and December 31, 2012, $240.0 million of variable rate debt outstanding under the Company's unsecured term loan facility had been effectively converted to a fixed rate through July 5, 2017 by interest rate swap agreements.

At September 30, 2013, the Company had a carrying value of $1.19 billion in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 6.10%. Discounting the future cash flows for fixed rate debt using rates of 3.33% to 5.65%, management estimates the fair value of the fixed rate debt to be approximately $1.24 billion with an estimated weighted average market rate of 4.94% at September 30, 2013.

At December 31, 2012, the Company had a carrying value of $1.08 billion in fixed rate long-term debt outstanding with an average weighted interest rate of approximately 6.35%. Discounting the future cash flows for fixed rate debt using rates of 3.41% to 5.17%, management estimates the fair value of the fixed rate debt to be approximately $1.17 billion with an estimated weighted average market rate of 4.46% at December 31, 2012.

12. Earnings Per Share

The following table summarizes the Company's computation of basic and diluted earnings per share (EPS) for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands except per share information):

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$40,529			$113,252		
Less: preferred dividend requirements	(5,951)			(17,855)		
Income from continuing operations available to common shareholders	$34,578	47,349	$0.73	$95,397	47,097	$2.03
Income from discontinued operations available to common shareholders	$2,973	47,349	$0.06	$3,931	47,097	$0.08
Net income available to common shareholders	$37,551	47,349	$0.79	$99,328	47,097	$2.11
Diluted EPS:						
Income from continuing operations available to common shareholders	$34,578	47,349		$95,397	47,097	
Effect of dilutive securities:						
Share options	—	175		—	193	
Income from continuing operations available to common shareholders	$34,578	47,524	$0.73	$95,397	47,290	$2.02
Income from discontinued operations available to common shareholders	$2,973	47,524	$0.06	$3,931	47,290	$0.08
Net income available to common shareholders	$37,551	47,524	$0.79	$99,328	47,290	$2.10

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (loss) (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$37,616			$105,344		
Less: preferred dividend requirements	(6,002)			(18,005)		
Noncontrolling interest adjustments	(24)			(61)		
Income from continuing operations available to common shareholders	$31,590	46,840	$0.67	$87,278	46,781	$1.87
Loss from discontinued operations available to common shareholders	$(3,441)	46,840	$(0.07)	$(12,961)	46,781	$(0.28)
Net income available to common shareholders	$28,149	46,840	$0.60	$74,317	46,781	$1.59
Diluted EPS:						
Income from continuing operations available to common shareholders	$31,590	46,840		$87,278	46,781	
Effect of dilutive securities:						
Share options	—	250		—	254	
Income from continuing operations available to common shareholders	$31,590	47,090	$0.67	$87,278	47,035	$1.86
Loss from discontinued operations available to common shareholders	$(3,441)	47,090	$(0.07)	$(12,961)	47,035	$(0.28)
Net income available to common shareholders	$28,149	47,090	$0.60	$74,317	47,035	$1.58

The additional 1.9 million common shares that would result from the conversion of the Company’s 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of the Company’s 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 because the effect is anti-dilutive.

The dilutive effect of potential common shares from the exercise of share options is included in diluted earnings per share for the three and nine months ended September 30, 2013 and 2012. For the three and nine months ended September 30, 2013 and 2012, options to purchase 331 thousand and 368 thousand shares of common shares, respectively, at per share prices ranging from $45.20 to $65.50 and $44.62 to $65.50, respectively, were not included in the computation of diluted earnings per share because the options were anti-dilutive.

13. Equity Incentive Plan

All grants of common shares and options to purchase common shares are issued under the Company's 2007 Equity Incentive Plan and an aggregate of 3,650,000 common shares, options to purchase common shares and restricted share units, subject to adjustment in the event of certain capital events, may be granted. At September 30, 2013, there were 1,942,628 shares available for grant under the 2007 Equity Incentive Plan.

Share Options

Share options granted under the 2007 Equity Incentive Plan have exercise prices equal to the fair market value of a common share at the date of grant. The options may be granted for any reasonable term, not to exceed 10 years, and for employees typically become exercisable at a rate of 25% per year over a four-year period. For non-employee Trustees, share options are vested upon issuance, however, the share options may not be exercised for a one year period subsequent to the grant date. The Company generally issues new common shares upon option exercise. A summary of the Company's share option activity and related information is as follows:

	Number of shares	Option price per share			Weighted avg. exercise price
Outstanding at December 31, 2012	881,338	$18.18	—	$65.50	$38.51
Exercised	(143,272)	18.18	—	47.20	30.64
Granted	115,257	46.86	—	58.09	47.86
Forfeited	(12,658)	36.56	—	60.42	56.90
Outstanding at September 30, 2013	840,665	$18.18	—	$65.50	$40.85

The weighted average fair value of options granted was $12.35 and $12.08 during the nine months ended September 30, 2013 and 2012, respectively. The intrinsic value of stock options exercised was $2.9 million and $1.5 million during the nine months ended September 30, 2013 and 2012, respectively. Additionally, the Company repurchased 66,632 shares into treasury shares in conjunction with the stock options exercised during the nine months ended September 30, 2013 with a total value of $3.4 million. At September 30, 2013, stock-option expense to be recognized in future periods was $2.0 million.

The expense related to share options included in the determination of net income for the nine months ended September 30, 2013 and 2012 was $647 thousand and $709 thousand, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates: risk-free interest rate of 1.0% and 1.1% to 1.4% for the nine months ended September 30, 2013 and 2012, respectively, dividend yield of 5.4% to 6.5% for the nine months ended September 30, 2013 and 6.3% to 6.7% for the nine months ended September 30, 2012, volatility factors in the expected market price of the Company's common shares of 50.7% for the nine months ended September 30, 2013 and 51.3% to 51.4% for the nine months ended September 30, 2012, 0.23% to 0.29% and 0.25% expected forfeiture rate for the nine months ended September 30, 2013 and 2012, respectively, and an expected life of approximately six years for both the nine months ended September 30, 2013 and 2012. The Company uses historical data to estimate the expected life of the option and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Additionally, expected volatility is computed based on the average historical volatility of the Company's publicly traded shares.

The following table summarizes outstanding options at September 30, 2013:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	201,859	5.4		
20.00 - 29.99	—	0.0		
30.00 - 39.99	25,731	4.5		
40.00 - 49.99	502,222	5.9		
50.00 - 59.99	17,500	6.7		
60.00 - 65.50	93,353	3.3		
	840,665	5.5	$40.85	$8,231

The following table summarizes exercisable options at September 30, 2013:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	201,859	5.4		
20.00 - 29.99	—	0.0		
30.00 - 39.99	18,460	3.8		
40.00 - 49.99	292,290	4.0		
50.00 - 59.99	10,000	4.6		
60.00 - 65.50	93,353	3.3		
	615,962	4.3	$38.78	$7,667

Nonvested Shares

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

	Number of shares	Weighted avg. grant date fair value	Weighted avg. life remaining
Outstanding at December 31, 2012	322,808	$42.52	
Granted	198,833	47.15	
Vested	(145,570)	39.88	
Forfeited	(4,207)	45.39	
Outstanding at September 30, 2013	371,864	$46.00	1.24

The holders of nonvested shares have voting rights and receive dividends from the date of grant. These shares vest ratably over a period of three to four years. The fair value of the nonvested shares that vested was $6.7 million and $7.7 million for the nine months ended September 30, 2013 and 2012, respectively. At September 30, 2013, unamortized share-based compensation expense related to nonvested shares was $9.5 million.

Restricted Share Units

A summary of the Company's restricted share unit activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Life Remaining
Outstanding at December 31, 2012	10,925	$44.62	
Granted	17,530	58.38	
Vested	(10,925)	44.62	
Outstanding at September 30, 2013	17,530	$58.38	0.61

The holders of restricted share units receive dividend equivalents from the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. At September 30, 2013, unamortized share-based compensation expense related to restricted share units was $627 thousand.

14. Discontinued Operations

Included in discontinued operations for the three and nine months ended September 30, 2013 are the operations of the Pope Valley winery, which was held for sale as of September 30, 2013, as well as the operations of a winery and a portion of related vineyards located in Sonoma County, California that was sold on March 18, 2013 and an additional portion of vineyards at the same property that was sold on August 9, 2013 for a total net gain of $0.4 million, one winery located in located in Linden, California that was sold on July 19, 2013 for a gain of $0.08 million, one vineyard and winery property located in Lockeford, California that was sold on July 24, 2013 for a gain of $0.04 million and one vineyard and winery property located in Hopland, California that was sold on August 9, 2013 for a gain of $3.2 million. Included in discontinued operations for the three and nine months ended September 30, 2012 are the operations of the prior mentioned properties as well as the operations of the Carneros custom crush facility and the Buena Vista winery and vineyards, including a gain on sale or acquisition of real estate of $0.4 million (both were sold during 2012). Additionally, included in discontinued operations for the nine months ended September 30, 2013 are certain operations that relate to the settlement of escrow reserves established with the sale of Toronto Dundas Square and, for the nine months ended September 30, 2012, a gain on sale or acquisition of real estate of $0.3 million was recognized related to escrow reserve settlement.

The operating results relating to discontinued operations are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Rental revenue	$163	$1,294	$1,623	$4,179
Tenant reimbursements	—	—	554	—
Mortgage and other financing income	—	—	—	112
Total revenue	163	1,294	2,177	4,291
Property operating expense (benefit)	66	3	38	(720)
Other expense	87	103	241	560
Interest income, net	—	—	(28)	(12)
Impairment charges	—	3,086	—	14,015
Depreciation and amortization	205	1,543	1,728	4,129
Income (loss) before gain on sale or acquisition of real estate	(195)	(3,441)	198	(13,681)
Gain on sale or acquisition of real estate	3,168	—	3,733	720
Net income (loss)	$2,973	$(3,441)	$3,931	$(12,961)

15 . Other Commitments and Contingencies

As of September 30, 2013, the Company had 13 entertainment development projects under construction or under redevelopment for which it has commitments to fund approximately $52.5 million, nine education development project under construction for which it has commitments to fund approximately $49.0 million and five recreation development projects under construction for which it has commitments to fund approximately $43.1 million. Development costs are advanced by the Company in periodic draws. If the Company determines that construction is not being completed in accordance with the terms of the development agreement, it can discontinue funding construction draws. The Company has agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

The Company has certain commitments related to its mortgage note investments that it may be required to fund in the future. The Company is generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of September 30, 2013, the Company had nine mortgage notes receivable with commitments totaling approximately $16.4 million. If commitments are funded in the future, interest

will be charged at rates consistent with the existing investments.

The Company has provided guarantees of the payment of certain economic development revenue bonds totaling $20.4 million related to two theatres in Louisiana for which the Company earns a fee at annual rates of 2.88% to 4.00% over the 30-year terms of the related bonds. The Company has recorded $8.7 million as a deferred asset included in other

assets and $8.7 million included in other liabilities in the accompanying consolidated balance sheet as of September 30, 2013 related to these guarantees. No amounts have been accrued as a loss contingency related to these guarantees because payment by the Company is not probable.

On September 18, 2013, the United States District Court for the Southern District of New York dismissed the complaint filed by Concord Associates, L.P. and six other companies affiliated with Louis Cappelli (the Cappelli group) against the Company and certain of its subsidiaries, Empire Resorts, Inc. and Monticello Raceway Management, Inc. (collectively Empire), and Kien Huat Realty III Limited and Genting New York LLC (collectively, Genting). The complaint alleged, among other things, that the Company and its subsidiaries had conspired with Empire to monopolize the racing and gaming market in the Catskills by entering into exclusivity and development agreements to develop a comprehensive resort destination in Sullivan County, New York. The plaintiffs are seeking $500 million in damages (trebled to $1.5 billion under antitrust law), punitive damages, and injunctive relief. The District Court dismissed plaintiffs' federal antitrust claims against all defendants with prejudice, and dismissed the pendent state law claims against Empire and Genting without prejudice, meaning they could be further pursued in state court. The plaintiffs have filed a motion for reconsideration with the District Court, seeking permission to file a Second Amended Complaint, and also have filed a Notice of Appeal.

The Company has not determined that losses related to these matters are probable. Because of the favorable ruling from the District Court and the pending appeal, together with the inherent difficulty of predicting the outcome of litigation generally, the Company does not have sufficient information to determine the amount or range of reasonably possible loss with respect to these matters. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. The Company intends to vigorously defend the claims asserted against the Company and certain of its subsidiaries by the Cappelli Group, for which the Company believes it has meritorious defenses, but there can be no assurances as to its outcome.

16. Segment Information

The Company groups investments into four reportable operating segments: entertainment, education, recreation and other. The financial information summarized below is presented by reportable operating segment, consistent with how the Company regularly reviews and manages its business:

Balance Sheet Data:

	As of September 30, 2013					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Total Assets	$1,851,592	$504,223	$477,132	$209,924	$ 92,402	$3,135,273

	As of December 31, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Total Assets	$1,818,712	$376,048	$427,977	$252,444	$ 71,549	$2,946,730

Operating Data:

	Three Months Ended September 30, 2013					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$54,800	$4,422	$2,682	$305	$ —	$62,209
Tenant reimbursements	4,552	—	—	—	—	4,552
Other income	29	—	—	1,373	39	1,441
Mortgage and other financing income	2,258	8,507	8,807	67	—	19,639
Total revenue	61,639	12,929	11,489	1,745	39	87,841
Property operating expense	6,365	—	—	214	—	6,579
Other expense	—	—	—	204	—	204
Total investment expenses	6,365	—	—	418	—	6,783
Net operating income - before unallocated items	55,274	12,929	11,489	1,327	39	81,058

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(6,764)
Costs associated with loan refinancing or payoff	(223)
Interest expense, net	(20,435)
Transaction costs	(317)
Depreciation and amortization	(13,141)
Equity in income from joint ventures	351
Discontinued operations:	
Loss from discontinued operations	