DILLARDS INC
Form 10-K
March 27, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark one)

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

For the fiscal year ended February 1, 2014
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 1-6140
DILLARD'S, INC.
(Exact name of registrant as specified in its charter)

DELAWARE State or other jurisdiction of incorporation or organization	71-0388071 (IRS Employer Identification No.)
1600 CANTRELL ROAD, LITTLE ROCK, ARKANSAS (Address of principal executive offices)	72201 (Zip Code)

Registrant's telephone number, including area code (501) 376-5200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No
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. ý Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 ý	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 Exchange Act).
Yes o No ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 3, 2013: $3,261,211,987.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 2014:

CLASS A COMMON STOCK, $0.01 par value	39,918,285
CLASS B COMMON STOCK, $0.01 par value	4,010,929

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 17, 2014 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Table of Contents

Item No.		Page No.
	PART I	
1.	Business	1
1A.	Risk Factors	3
1B.	Unresolved Staff Comments	8
2.	Properties	9
3.	Legal Proceedings	10
4.	Mine Safety Disclosures	10
	PART II	
5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
6.	Selected Financial Data	14
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
7A.	Quantitative and Qualitative Disclosures about Market Risk	34
8.	Financial Statements and Supplementary Data	34
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	35
9A.	Controls and Procedures	35
9B.	Other Information	35
	PART III	
10.	Directors, Executive Officers and Corporate Governance	36
11.	Executive Compensation	36
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	36
13.	Certain Relationships and Related Transactions, and Director Independence	37
14.	Principal Accounting Fees and Services	37
	PART IV	
15.	Exhibits, Financial Statement Schedules	38

Table of Contents

PART I

ITEM 1. BUSINESS.

Dillard's, Inc. ("Dillard's", the "Company", "we", "us", "our" or "Registrant") ranks among the nation's largest fashion apparel, cosmetics and home furnishing retailers. The Company, originally founded in 1938 by William T. Dillard, was incorporated in Delaware in 1964. As of February 1, 2014, we operated 296 Dillard's stores, including 18 clearance centers, and an Internet store offering a wide selection of merchandise including fashion apparel for women, men and children, accessories, cosmetics, home furnishings and other consumer goods. The Company also operates a general contracting construction company, CDI Contractors, LLC and CDI Contractors, Inc. ("CDI"), a portion of whose business includes constructing and remodeling stores for the Company.

The following table summarizes the percentage of net sales by segment and major product line:

	Percentage of Net Sales					
	Fiscal 2013		Fiscal 2012		Fiscal 2011	
Retail operations segment:						
Cosmetics	15	%	15	%	15	%
Ladies' apparel	22		22		23	
Ladies' accessories and lingerie	16		15		14	
Juniors' and children's apparel	8		8		8	
Men's apparel and accessories	17		17		17	
Shoes	16		16		16	
Home and furniture	5		5		6	
	99		98		99	
Construction segment	1		2		1	
Total	100	%	100	%	100	%

Additional information regarding our business, results of operations and financial condition, including information pertaining to our reporting segments, can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 hereof and in Note 2 of "Notes to Consolidated Financial Statements" in Item 8 hereof.

We operate retail department stores in 29 states, primarily in the southwest, southeast and midwest regions of the United States. Most of our stores are located in suburban shopping malls and open-air centers. Customers may also purchase our merchandise on-line at our website, www.dillards.com, which features on-line gift registries and a variety of other services.

Our retail merchandise business is conducted under highly competitive conditions. Although we are a large regional department store, we have numerous competitors at the national and local level that compete with our individual stores, including specialty, off-price, discount and Internet retailers. Competition is characterized by many factors including location, reputation, merchandise assortment, advertising, price, quality, operating efficiency, service and credit availability. We believe that our stores are in a strong competitive position with regard to each of these factors. Other retailers may compete for customers on some or all of these factors, or on other factors, and may be perceived by some potential customers as being better aligned with their particular preferences.

Our merchandise selections include, but are not limited to, Dillard's lines of exclusive brand merchandise such as Antonio Melani, Gianni Bini, GB, Roundtree & Yorke and Daniel Cremieux. Dillard's exclusive brands/private label merchandise program provides benefits for Dillard's and our customers. Our customers receive fashionable, higher quality product often at a savings compared to national brands. Dillard's private label merchandise program allows us to ensure Dillard's high standards are achieved, while minimizing costs and differentiating our merchandise offerings from other retailers.

We have made a significant investment in our trademark and license portfolio, in terms of design function, advertising, quality control and quick response to market trends in a quality manufacturing environment. Dillard's trademark registrations are maintained for as long as Dillard's holds the exclusive right to use the trademarks on the listed products.

1

Table of Contents

Our merchandising, sales promotion and store operating support functions are conducted primarily at our corporate headquarters. Our back office sales support functions, such as accounting, product development, store planning and information technology, are also centralized.
We have developed a knowledge of each of our trade areas and customer bases for our stores. This knowledge is enhanced through regular store visits by senior management and merchandising personnel and through the use of on-line merchandise information and is supported by our regional merchandising offices. We will continue to use existing technology and research to edit merchandise assortments by store to meet the specific preference, taste and size requirements of each local operating area.
Certain departments in our stores are licensed to independent companies in order to provide high quality service and merchandise where specialization, focus and expertise are critical. The licensed departments vary by store to complement our own merchandising departments. The principal licensed department is an upscale women's apparel vendor in certain stores. The terms of the license agreements typically range between three and five years with one year renewals and require the licensee to pay for fixtures and to provide their own employees. We regularly evaluate the performance of the licensed departments and require compliance with established customer service guidelines.
GE Consumer Finance ("GE") owns and manages Dillard's proprietary credit cards ("proprietary cards") under a long-term marketing and servicing alliance ("Alliance"). GE establishes and owns proprietary card accounts for our customers, retains the benefits and risks associated with the ownership of the accounts, provides key customer service functions, including new account openings, transaction authorization, billing adjustments and customer inquiries, receives the finance charge income and incurs the bad debts associated with those accounts. Pursuant to the Alliance, we receive on-going cash compensation from GE based upon the portfolio's earnings. The compensation earned on the portfolio is determined monthly and has no recourse provisions. Furthermore, pursuant to this agreement, we have no continuing involvement other than to honor the proprietary cards in our stores. Although not obligated to a specific level of marketing commitment, we participate in the marketing of the proprietary cards and accept payments on the proprietary cards in our stores as a convenience to customers who prefer to pay in person rather than by paying online or mailing their payments to GE.
The Alliance expires in late fiscal 2014. The Company is currently considering its options concerning the future ownership and management of the credit card business.
We seek to expand the number and use of the proprietary cards by, among other things, providing incentives to sales associates to open new credit accounts, which generally can be opened while a customer is visiting one of our stores. Customers who open accounts are rewarded with discounts on future purchases. Proprietary card customers are sometimes offered private shopping nights, direct mail catalogs, special discounts and advance notice of sale events. GE has created various loyalty programs that reward customers for frequency and volume of proprietary card usage.
Our earnings depend to a significant extent on the results of operations for the last quarter of our fiscal year. Due to holiday buying patterns, sales for that period average approximately one-third of annual sales.
As of February 1, 2014, we employed approximately 40,000 full-time and part-time associates, of which approximately 46% were part-time. The number of associates varies during the year, especially during peak seasonal selling periods.
We purchase merchandise from many sources and do not believe that we are dependent on any one supplier. We have no long-term purchase commitments or arrangements with any of our suppliers and consider our relationships to be strong and mutually beneficial.
Our fiscal year ends on the Saturday nearest January 31 of each year. Fiscal years 2013 and 2011 ended February 1, 2014 and January 28, 2012, respectively, and each contained 52 weeks. Fiscal year 2012 ended February 2, 2013 and contained 53 weeks.
The information contained on our website is not incorporated by reference into this Form 10-K and should not be considered to be a part of this Form 10-K. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of changes in beneficial ownership of securities on Form 4 and Form 5 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge (as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC) on the Dillard's, Inc. website: www.dillards.com.

We have adopted a Code of Conduct and Corporate Governance Guidelines, as required by the listing standards of the New York Stock Exchange and the rules of the SEC. We have posted on our website our Code of Conduct, Corporate Governance Guidelines, Social Accountability Policy, our most recent Social Accountability Report and committee charters for the Audit Committee of the Board of Directors and the Stock Option and Executive Compensation Committee.

Table of Contents

Our corporate offices are located at 1600 Cantrell Road, Little Rock, Arkansas 72201, telephone: 501-376-5200.

ITEM 1A. RISK FACTORS.

The risks described in this Item 1A, Risk Factors, of this Annual Report on Form 10-K for the year ended February 1, 2014, could materially and adversely affect our business, financial condition and results of operations.

The Company cautions that forward-looking statements, as such term is defined in the Private Securities Litigation Reform Act of 1995, contained in this Annual Report on Form 10-K are based on estimates, projections, beliefs and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions.

The retail merchandise business is highly competitive, and that competition could lower our revenues, margins and market share.

We conduct our retail merchandise business under highly competitive conditions. Competition is characterized by many factors including location, reputation, fashion, merchandise assortment, advertising, operating efficiency, price, quality, customer service and credit availability. We have numerous competitors nationally, locally and on the Internet, including conventional department stores, specialty retailers, off-price and discount stores, boutiques, mass merchants, Internet and mail-order retailers. Although we are a large regional department store, some of our competitors are larger than us with greater financial resources and, as a result, may be able to devote greater resources to sourcing, promoting and selling their products. Additionally, we compete in certain markets with a substantial number of retailers that specialize in one or more types of merchandise that we sell. In recent years, competition has intensified as a result of reduced discretionary consumer spending, increased promotional activity, deep price discounting, and few barriers to entry. Also, online retail shopping is rapidly evolving, and we expect competition in the e-commerce market to intensify in the future as the Internet facilitates competitive entry and comparison shopping. We anticipate that intense competition will continue from both existing competitors and new entrants. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share.

Changes in economic, financial and political conditions, and the resulting impact on consumer confidence and consumer spending, could have an adverse effect on our business and results of operations.

The retail merchandise business is highly sensitive to changes in overall economic and political conditions that impact consumer confidence and spending. Various economic conditions affect the level of disposable income consumers have available to spend on the merchandise we offer, including unemployment rates, interest rates, taxation, energy costs, the availability of consumer credit, the price of gasoline, consumer confidence in future economic conditions and general business conditions. Consumer purchases of discretionary items and other retail products generally decline during recessionary periods, and also may decline at other times when changes in consumer spending patterns affect us unfavorably. In addition, any significant decreases in shopping mall traffic, as a result of, among other things, higher gasoline prices, could also have an adverse effect on our results of operations.

The ongoing global economic instability continues to cause a great deal of uncertainty domestically and abroad. Additional uncertainty has resulted from the ongoing debate in the United States regarding budgetary concerns, including the U.S. debt. This market uncertainty may continue to result in reduced consumer confidence and spending, which could have an adverse effect on our results of operations.

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors.

Our sales and operating results depend in part on our ability to effectively predict and quickly respond to changes in fashion trends and customer preferences. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences at competitive prices. Even with these efforts, we cannot be certain that we will be able to successfully meet constantly changing fashion trends and customer preferences. If we are unable to successfully predict or respond to changing styles or preferences, we may be faced with lower sales,

increased inventories, additional markdowns or promotional sales to dispose of excess or slow-moving inventory, and lower gross margins, all of

3

Table of Contents

which would have an adverse effect on our business, financial condition, and results of operations. Additionally, failure to respond rapidly to changing trends could impact our reputation with customers and diminish brand and customer loyalty.

Our failure to protect our reputation could have an adverse effect on our business.

We offer our customers quality products at competitive prices and a high level of customer service, resulting in a well-recognized brand and customer loyalty. Any significant damage to our brand or reputation could negatively impact sales, diminish customer trust and generate negative sentiment, any of which would harm our business and results of operation.

Increases in the price of merchandise, raw materials, fuel and labor or their reduced availability could increase our cost of goods and negatively impact our financial results.

We have experienced and may continue to experience increases in our merchandise, raw materials, fuel and labor costs. Fluctuations in the price and availability of fuel, labor and raw materials, combined with the inability to mitigate or to pass cost increases on to our customers or to change our merchandise mix as a result of such cost increases, could have an adverse impact on our profitability. Attempts to pass such costs along to our customers, however, might cause a decline in our sales volume. Additionally, any decrease in the availability of raw materials could impair our ability to meet our purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel and labor may also have an adverse impact on our cash and working capital needs.

Third party suppliers on whom we rely to obtain materials and provide production facilities may experience financial difficulties due to current and future economic and political conditions.

Our suppliers may experience financial difficulties due to a downturn in the industry or in other macroeconomic environments. Our suppliers' cash and working capital needs can be adversely impacted by the increased cost and lower availability of merchandise, raw materials, fuel and labor. Current and future economic conditions may prevent our suppliers from obtaining financing on favorable terms, which could impact their ability to supply us with merchandise on a timely basis. Similarly, political or financial instability, changes in U.S. and foreign laws and regulations affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws and regulations, as well as currency exchange rates, transport capacity and costs and other factors relating to foreign trade and the inability to access suitable merchandise on acceptable terms could adversely impact our results of operations.

An increase in the cost or a disruption in the flow of our imported goods could decrease our sales and profits.

We source many of our products from vendors in countries outside of the United States. Any disruption in the flow of imported merchandise, including strikes at ports at home or abroad, or an increase in the cost of those goods may harm our business and decrease our profitability.

All of our suppliers must comply with our supplier compliance programs and applicable laws, including consumer and product safety laws, but we do not control our vendors or their labor and business practices. The violation of labor or other laws by one of our vendors could have an adverse effect on our business. Additionally, although we diversify our sourcing and production by country, the failure of any supplier to produce and deliver our goods on time, to meet our quality standards and adhere to our product safety requirements or to meet the requirements of our supplier compliance program or applicable laws, could impact our ability to flow merchandise to our stores or directly to consumers in the right quantities at the right time, which could adversely affect our profitability and could result in damage to our reputation and translate into sales losses.

A decrease in cash flows from our operations and constraints to accessing other financing sources could limit our ability to fund our operations, capital projects, interest and debt repayments, stock repurchases and dividends.

Our business depends upon our operations to generate strong cash flow and to some extent upon the availability of financing sources to supply capital to fund our general operating activities, capital projects, interest and debt repayments, stock repurchases and dividends. Our inability to continue to generate sufficient cash flows to support these activities or the lack of availability of financing in adequate amounts and on appropriate terms when needed could adversely affect our financial performance including our earnings per share.

Reductions in the income and cash flow from our long-term marketing and servicing alliance related to our proprietary credit cards could impact operating results and cash flows.

GE owns and manages our proprietary credit cards under the Alliance. The Alliance provides for certain payments to be made by GE to the Company, including a revenue sharing and marketing reimbursement. The income and cash flow that the Company receives from the Alliance is dependent upon a number of factors including the level of sales on GE accounts, the level of balances carried on the GE accounts by GE customers, payment rates on GE accounts, finance charge rates and other fees on GE accounts, the level of credit losses for the GE accounts, GE's ability to extend credit to our customers as well as

Table of Contents

GE's funding costs, all of which can vary based on changes in federal and state banking and consumer protection laws and from a variety of economic, legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from the Alliance decreases, our operating results and cash flows could be adversely affected. The Alliance expires in late fiscal 2014. If, when the Alliance expires, GE is unable or unwilling to renew and continue owning and managing our proprietary credit cards on similar terms and conditions as exist today or we are unable to quickly and adequately contract with a comparable replacement vendor, then our operating results and cash flows could be adversely affected due to a decrease in credit card sales to our cardholding customers and a loss of revenues attributable to payments from GE. In addition, if our agreement with GE is terminated prior to its expiration under circumstances in which we are unable to quickly and adequately contract with a comparable replacement vendor, holders of our proprietary credit card will be unable to use their cards. This would likely result in a decrease in sales to such customers, a loss of the revenues attributable to the payments from GE and customer dissatisfaction, any or all of which could have an adverse effect on our business and results of operations.

Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of credit accounts, and limitations on the amount of finance charges and fees that may be charged by a credit card provider. GE may be subject to regulations that may adversely impact its operation of our proprietary credit card. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to our cardholders or negatively impact provisions which affect our revenue streams associated with our proprietary credit card, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty. Such changes could also negatively impact our ability to facilitate consumer credit or increase the cost of credit to our cardholders.

Our business is seasonal, and fluctuations in our revenues during the last quarter of our fiscal year can have a disproportionate effect on our results of operations.

Our business, like many other retailers, is subject to seasonal influences, with a significant portion of sales and income typically realized during the last quarter of our fiscal year due to the holiday season. Our fiscal fourth-quarter results may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions, and any such fluctuation could have a disproportionate effect on our results of operations for the entire fiscal year. Because of the seasonality of our business, our operating results vary considerably from quarter to quarter, and results from any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

A shutdown of, or disruption in, any of the Company's distribution or fulfillment centers would have an adverse effect on the Company's business and operations.

Our business depends on the orderly operation of the process of receiving and distributing merchandise, which relies on adherence to shipping schedules and effective management of distribution centers. Although we believe that our receiving and distribution process is efficient and that we have appropriate contingency plans, unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters, or other catastrophic events, labor disagreements, or other shipping problems may result in the loss of inventory and/or delays in the delivery of merchandise to our stores and customers.

Current store locations may become less desirable, and desirable new locations may not be available for a reasonable price, if at all, either of which could adversely affect our results of operations.

In order to generate customer traffic and for convenience of our customers, we locate our stores in desirable locations within shopping malls. Our stores benefit from the abilities that our Company, other anchor tenants and other area attractions have to generate consumer traffic. They also benefit from the continuing popularity of shopping malls as shopping destinations. Adverse changes in the development of new shopping malls in the United States, the availability or cost of appropriate locations within existing or new shopping malls, competition with other retailers for prominent locations, the success of individual shopping malls and the success of other anchor tenants, or the continued popularity of shopping malls may impact our ability to maintain or grow our sales in our existing stores, as well as our ability to open new stores, which could have an adverse effect on our financial condition or results of operations. Many shopping mall operators have been severely impacted by the recent global economic downturn. The continuation of the economic slowdown in the United States could impact shopping mall operators' financial ability to

develop new shopping malls and properly maintain existing shopping malls, which could adversely affect our sales.

Table of Contents

Ownership and leasing of significant amounts of real estate exposes us to possible liabilities and losses.
We own the land and building, or lease the land and/or the building, for all of our stores. Accordingly, we are subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, and their operating costs could increase, because of changes in the investment climate for real estate, demographic trends and supply or demand for the use of the store, which may result from competition from similar stores in the area, as well as liability for environmental conditions. If an existing owned store is not profitable, and we decide to close it, we may be required to record an impairment charge and/or exit costs associated with the disposal of the store. We generally cannot cancel our leases. If an existing or future store is not profitable, and we decide to close it, we may be committed to perform certain obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of the leases expires, we may be unable to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. We may not be able to close an unprofitable owned store due to an existing operating covenant which may cause us to operate the location at a loss and prevent us from finding a more desirable location. We have approximately 75 stores along the Gulf and Atlantic coasts that are covered by third party insurance but are self-insured for property and merchandise losses related to "named storms"; therefore, repair and replacement costs will be borne by us for damage to any of these stores from "named storms".
Litigation with customers, employees and others could harm our reputation and impact operating results.
In the ordinary course of business, we may be involved in lawsuits and regulatory actions. We are impacted by trends in litigation, including, but not limited to, class-action allegations brought under various consumer protection and employment laws. Additionally, we may be subject to employment-related claims alleging discrimination, harassment, wrongful termination and wage issues, including those relating to overtime compensation. We are susceptible to claims filed by customers alleging responsibility for injury suffered during a visit to a store or from product defects, and we are also subject to lawsuits filed by patent holders alleging patent infringement. These types of claims, as well as other types of lawsuits to which we are subject from time to time, can distract management's attention from core business operations and impact operating results, particularly if a lawsuit results in an unfavorable outcome.
Our profitability may be adversely impacted by weather conditions.
Our merchandise assortments reflect assumptions regarding expected weather patterns and our profitability depends on our ability to timely deliver seasonally appropriate inventory. Unexpected or unseasonable weather conditions could render a portion of our inventory incompatible with consumer needs. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of the Company's inventory incompatible with those unseasonable conditions. Additionally, extreme weather or natural disasters, particularly in the areas in which our stores are located, could also severely hinder our ability to timely deliver seasonally appropriate merchandise. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. A reduction in the demand for or supply of our seasonal merchandise or reduced sales due to reduced customer traffic in our stores could have an adverse effect on our inventory levels, gross margins and results of operations.
Natural disasters, war, acts of terrorism, other armed conflicts, and public health issues may adversely impact our business.
The occurrence of, or threat of, a natural disaster, war, acts of terrorism, other armed conflicts, and public health issues could disrupt our operations, disrupt international trade and supply chain efficiencies, suppliers or customers, or result in political or economic instability. If commercial transportation is curtailed or substantially delayed our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution centers, fulfillment centers, stores, or directly to customers. As a result of the occurrence of, or threat of, a natural disaster or acts of terrorism in the United States, we may be required to suspend operations in some or all of our stores, which could have a material adverse impact on our business, financial condition, and results of operations.
Increases in the cost of employee benefits could impact the Company's financial results and cash flows.
The Company's expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could impact the Company's financial results and cash flows. Healthcare costs have risen significantly in

recent years, and recent legislative and private sector initiatives regarding healthcare reform could result in significant changes to the U.S. healthcare system. Many of our employees who currently choose not to participate in our healthcare plans may find it more advantageous to do so as a result of recent changes to healthcare laws in the United States. Such changes include potential penalties on persons for not obtaining healthcare coverage and being ineligible for certain healthcare subsidies if an employee is eligible and offered qualifying and affordable healthcare coverage under an employer's plan. If a large portion of eligible employees who currently choose not to participate in our plans choose to enroll as a result of the law change, it may

Table of Contents

significantly increase our healthcare coverage costs or we may not be able to offer competitive health care benefits to attract and retain employees, either of which could have an adverse effect on our reputation and have a negative impact on our financial results.

The Company depends on its ability to attract and retain quality employees, and failure to do so could adversely affect our ability to execute our business strategy and our operating results.

The Company's business is dependent upon attracting and retaining quality employees. The Company has a large number of employees, many of whom are in entry level or part-time positions with historically high rates of turnover. The Company's ability to meet its labor needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage and health reform legislation and changing demographics. In addition, as a complex enterprise operating in a highly competitive and challenging business environment, the Company is highly dependent upon management personnel to develop and effectively execute successful business strategies and tactics. Any circumstances that adversely impact the Company's ability to attract, train, develop and retain quality employees throughout the organization could adversely affect the Company's business and results of operations.

Variations in the amount of vendor allowances received could adversely impact our operating results.

We receive vendor allowances for advertising, payroll and margin maintenance that are a strategic part of our operations. A reduction in the amount of cooperative advertising allowances would likely cause us to consider other methods of advertising as well as the volume and frequency of our product advertising, which could increase/decrease our expenditures and/or revenue. Decreased payroll reimbursements would either cause payroll costs to rise, negatively impacting operating income, or cause us to reduce the number of employees, which may cause a decline in sales. A decline in the amount of margin maintenance allowances would either increase cost of sales, which would negatively impact gross margin and operating income, or cause us to reduce merchandise purchases, which may cause a decline in sales.

Our operations are dependent on information technology systems, and disruptions in those systems could have an adverse impact on our results of operations.

Our operations are dependent upon the integrity, security and consistent operation of various systems and data centers, including the point-of-sale systems in the stores, our Internet website, data centers that process transactions, communication systems and various software applications used throughout our Company to track inventory flow, process transactions and generate performance and financial reports. The Company's computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyberattack or other security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by the Company's employees. If the Company's computer systems are damaged or cease to function properly, the Company may have to make a significant investment to repair or replace them, and the Company may suffer loss of critical data and interruptions or delays in its operations in the interim. Any material interruption in the Company's computer systems could adversely affect its business or results of operations.

Additionally, to keep pace with changing technology, we must continuously provide for the design and implementation of new information technology systems and enhancements of our existing systems. We could encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses or to losses due to disruption in business operations.

A privacy breach could adversely affect our business, reputation and financial condition.

We receive certain personal information about our employees and our customers, including information permitting cashless payments, both in our stores and through our online operations at www.dillards.com. In addition, our online operations depend upon the secure transmission of confidential information over public networks.

We have a longstanding Information Security Program committed to regular risk assessment practices surrounding the protection of confidential data. This program includes rigorous network segmentation and access controls around the computer resources that house confidential data. In response to recent high profile security breaches at other companies, we have again evaluated the security environment surrounding the handling and control of our critical data, especially the private data we receive from our customers, and have instituted additional measures to help protect us from a privacy breach.

Despite our substantial security measures, it is possible that unauthorized persons (through cyberattacks, which are evolving and becoming increasingly sophisticated, physical breach or other means) might defeat our security measures in the future and obtain personal information of customers, employees or others that we hold. Such a compromise that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, employees and others, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant

Table of Contents

additional resources related to our information security systems and could result in a disruption of our operations, particularly our online sales operations.

The percentage-of-completion method of accounting that we use to recognize contract revenues for our construction segment may result in material adjustments, which could result in a charge against our earnings.

Our construction segment recognizes contract revenues using the percentage-of-completion method. Under this method, estimated contract revenues are recognized by applying the percentage of completion of the project for the period to the total estimated revenues for the contract. Estimated contract losses are recognized in full when determined. Total contract revenues and cost estimates are reviewed and revised at a minimum on a quarterly basis as the work progresses and as change orders are approved. Adjustments based upon the percentage of completion are reflected in contract revenues in the period when these estimates are revised. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract profit, we are required to recognize a credit or a charge against current earnings, which could be material.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

Table of Contents

ITEM 2. PROPERTIES.

All of our stores are owned by us or leased from third parties. At February 1, 2014, we operated 296 stores in 29 states totaling approximately 50.5 million square feet of which we owned approximately 44.8 million square feet. Our third-party store leases typically provide for rental payments based on a percentage of net sales with a guaranteed minimum annual rent. In general, the Company pays the cost of insurance, maintenance and real estate taxes related to the leases.

The following table summarizes by state of operation the number of retail stores we operate and the corresponding owned and leased footprint at February 1, 2014:

Location	Number of stores	Owned Stores		
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Rental revenue	$ 59,211	$56,024	$117,494	$ 111,406
Tenant reimbursements	4,365	4,515	9,186	9,176
Other income	107	131	133	155
Mortgage and other financing income	15,256	13,747	29,976	27,262
Total revenue	78,939	74,417	156,789	147,999
Property operating expense	5,245	6,579	11,419	12,769
Other expense	431	677	916	1,157
General and administrative expense	5,821	5,105	12,288	10,573
Costs associated with loan refinancing or payoff	—	—	—	5,339
Interest expense, net	18,459	17,287	36,600	36,031
Transaction costs	31	76	189	1,349
Impairment charges	—	24,298	8,195	24,298
Depreciation and amortization	12,791	11,782	25,073	23,455
Income before equity in income from joint ventures and discontinued operations	36,161	8,613	62,109	33,028
Equity in income from joint ventures	278	781	324	1,555
Income from continuing operations	$ 36,439	$9,394	$62,433	$ 34,583
Discontinued operations:				
Income (loss) from discontinued operations	(59)	566	(297)	1,666
Impairment charges	—	(9,958)	(4,648)	(11,758)
Costs associated with loan refinancing or payoff	—	—	—	(1,049)
Gain on sale or acquisition of real estate	438	—	720	18,293
Net income	36,818	2	58,208	41,735
Add: Net income attributable to noncontrolling interests	(19)	—	(37)	(2)
Net income attributable to Entertainment Properties Trust	36,799	2	58,171	41,733
Preferred dividend requirements	(6,002)	(7,551)	(12,003)	(15,103)
	$ 30,797	$(7,549)	$46,168	$ 26,630

Net income (loss) available to common shareholders of Entertainment Properties Trust				
Per share data attributable to Entertainment Properties Trust common shareholders:				
Basic earnings per share data:				
Income from continuing operations	$ 0.65	$0.04	$1.08	$ 0.42
Income (loss) from discontinued operations	0.01	(0.20)	(0.09)	0.15
Net income (loss) available to common shareholders	$ 0.66	$(0.16)	$0.99	$ 0.57
Diluted earnings per share data:				
Income from continuing operations	$ 0.64	$0.04	$1.07	$ 0.42
Income (loss) from discontinued operations	0.01	(0.20)	(0.09)	0.15
Net income (loss) available to common shareholders	$ 0.65	$(0.16)	$0.98	$ 0.57
Shares used for computation (in thousands):				
Basic	46,826	46,648	46,751	46,576
Diluted	47,068	46,956	47,006	46,880

See accompanying notes to consolidated financial statements.

2

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$36,818	$2	$58,208	$41,735
Other comprehensive income (loss):				
Foreign currency translation adjustment	(2,910)	828	(124)	9,558
Change in unrealized loss on derivatives	(171)	(864)	(2,659)	(3,846)
Comprehensive income (loss)	33,737	(34)	55,425	47,447
Comprehensive income attributable to the noncontrolling interests	(19)	—	(37)	(2)
Comprehensive income (loss) attributable to Entertainment Properties Trust	$33,718	$(34)	$55,388	$47,445

See accompanying notes to consolidated financial statements.

3

ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Changes in Equity
Six Months Ended June 30, 2012
(Unaudited)
(Dollars in thousands)

	Entertainment Properties Trust Shareholders' Equity									
	Common Stock		Preferred Stock							
	Shares	Par	Shares	Par	Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Distributions in excess of net income	Noncontrolling Interests	Total
Balance at December 31, 2011	48,062,593	$480	13,450,000	$135	$1,719,066	$(44,834)	$23,463	$(228,261)	$28,054	$1,498,103
Restricted share units issued to Trustees	10,925	—	—	—	488	—	—	—	—	488
Issuance of nonvested shares, including nonvested shares issued for the payment of bonuses	148,095	1	—	—	1,486	—	—	—	—	1,487
Cancellation of 185 employee nonvested shares	—	—	—	—	5	(5)	—	—	—	—
Amortization of nonvested shares	—	—	—	—	2,266	—	—	—	—	2,266
Share option expense	—	—	—	—	481	—	—	—	—	481
Foreign currency translation adjustment	—	—	—	—	—	—	(124)	—	—	(124)
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	(2,659)	—	—	(2,659)
Net income	—	—	—	—	—	—	—	58,171	37	58,208
Purchase of 73,411	—	—	—	—	—	(3,209)	—	—	—	(3,209)

common shares for treasury										
Issuances of common shares	4,464	—	—	—	197	—	—	—	—	197
Stock option exercises, net	53,430	1	—	—	1,010	(1,491)	—	—	—	(480)
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(82,248)	—	(82,248)
Forfeiture of noncontrolling interest	—	—	—	—	27,785	—	—	—	(27,785)	—
Balance at June 30, 2012	48,279,507	$482	13,450,000	$135	$1,752,784	$(49,539)	$20,680	$(252,338)	$306	$1,472,510

See accompanying notes to consolidated financial statements.

4

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

	Six Months Ended June 30,	
	2012	2011
Operating activities:		
Net income	$58,208	$41,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash impairment charges	8,195	24,298
Loss (income) from discontinued operations	4,225	(7,152)
Costs associated with loan refinancing or payoff (non-cash portion)	—	1,759
Equity in income from joint ventures	(324)	(1,555)
Distributions from joint ventures	638	1,304
Depreciation and amortization	25,073	23,455
Amortization of deferred financing costs	2,177	1,787
Share-based compensation expense to management and trustees	2,998	2,841
Decrease in restricted cash	1,851	1,649
Increase in mortgage notes accrued interest receivable	(37)	—
Decrease in accounts receivable, net	494	1,015
Decrease in notes receivable and accrued interest receivable	8	48
Increase in direct financing lease receivable	(2,538)	(2,553)
Increase in other assets	(1,051)	(1,874)
Increase (decrease) in accounts payable and accrued liabilities	(1,156)	2,927
Increase in unearned rents and interest	2,511	138
Net operating cash provided by continuing operations	101,272	89,822
Net operating cash provided by discontinued operations	2,168	2,508
Net cash provided by operating activities	103,440	92,330
Investing activities:		
Acquisition of rental properties and other assets	(40,424)	(38,924)
Investment in unconsolidated joint ventures	(661)	(2,784)
Investment in mortgage notes receivable	(64,561)	(6,036)
Investment in a direct financing lease, net	—	(2,113)
Additions to properties under development	(43,597)	(18,437)
Net cash used by investing activities of continuing operations	(149,243)	(68,294)
Net cash used by other investing activities of discontinued operations	—	(58)
Net proceeds from sale of real estate from discontinued operations	12,969	212,396
Net cash provided (used) by investing activities	(136,274)	144,044
Financing activities:		
Proceeds from long-term debt facilities	396,000	195,000
Principal payments on long-term debt	(279,663)	(345,352)
Deferred financing fees paid	(2,101)	(934)
Net proceeds from issuance of common shares	133	145
Impact of stock option exercises, net	(480)	(499)
Purchase of common shares for treasury	(3,209)	(3,070)
Dividends paid to shareholders	(79,764)	(77,951)
Net cash provided (used) by financing activities	30,916	(232,661)
Effect of exchange rate changes on cash	32	251
Net increase (decrease) in cash and cash equivalents	(1,886)	3,964

Cash and cash equivalents at beginning of the period	14,625	11,776
Cash and cash equivalents at end of the period	$12,739	$15,740

Supplemental information continued on next page.

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

	Six Months Ended June 30,	
	2012	2011
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	$22,702	$4,552
Acquisiton of real estate in exchange for assumption of debt at fair value	$—	$4,109
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	$7,181	$6,785
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	$34,487	$36,025
Cash paid (received) during the year for income taxes	$(715)	$632

See accompanying notes to consolidated financial statements.

ENTERTAINMENT PROPERTIES TRUST
Notes to Consolidated Financial Statements (Unaudited)

1. Organization

Description of Business

Entertainment Properties Trust (the Company) is a Maryland real estate investment trust (REIT) organized on August 29, 1997. The Company develops, owns, leases and finances megaplex theatres, entertainment retail centers (centers generally anchored by an entertainment component such as a megaplex theatre and containing other entertainment-related or retail properties), public charter schools, metropolitan ski areas and other destination recreational and specialty properties. 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 six month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The Company consolidates certain entities if 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 of and eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary and requires enhanced disclosures on variable interest entities. 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 under the scope of the Distinguishing Liabilities from Equity guidance of the FASB ASC.

The consolidated balance sheet as of December 31, 2011 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, 2011 filed with the Securities and Exchange Commission (SEC) on February 24, 2012.

Operating Segments
For financial reporting purposes, the Company groups its investments into four reportable operating segments: entertainment, education, recreation and other. See Note 18 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 which 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 quarterly 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 credit worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. When evaluating customer credit worthiness, 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 $627 thousand and $523 thousand for the six months ended June 30, 2012 and 2011 , 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 $99 thousand were recognized during the six months ended June

30, 2012. No termination fees were recognized during the six months ended June 30, 2011.

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

8

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 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 (35%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at June 30, 2012 as a result of a series of sale leaseback transactions pertaining to a number of AMC megaplex theatres. Subsequent to June 30, 2012, the leases at four of the Company's megaplex theatres located in Canada were assumed by third-party operators and are no longer leased to AMC. This brings the portion of megaplex theatres leased to AMC to 31%. A substantial portion of the Company’s total revenues (approximately $50.1 million or 32% and $52.8 million or 36%, for the six months ended June 30, 2012 and 2011, respectively) result from the revenue by AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC’s obligations under the leases. AMCE had total assets of $3.6 billion and $3.7 billion, total liabilities of $3.5 billion and $3.4 billion and total stockholders' equity of $154 million and $360 million at March 29, 2012 and March 31, 2011, respectively. AMCE had a net loss of $82.0 million for the fifty-two weeks ended March 29, 2012, a net loss of $122.9 million for the fifty-two weeks ended March 31, 2011 and net earnings of $69.8 million for the fifty-two weeks ended April 1, 2010. AMCE has publicly held debt and the foregoing financial information was reported in its consolidated financial information which is publicly available. On May 20, 2012, AMC Entertainment Holdings, Inc., the parent of AMCE (AMCEH), announced that it entered into an agreement with Dalian Wanda Group Co. Ltd. (Wanda), pursuant to which Wanda would acquire AMCEH in a transaction valued at $2.6 billion. The sale of AMCEH to Wanda is subject to completion. If the transaction is completed, AMCE will become a wholly-owned subsidiary of Wanda.

For the six months ended June 30, 2012 and 2011, approximately $21.4 million or 14%, and $21.5 million or 15%, 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 and third-party

debt represent approximately $144.0 million or 10% and $144.6 million or 10% of the Company's net assets as of June 30, 2012 and December 31, 2011, respectively.

Share-Based Compensation

Share-based compensation to employees of the Company is determined pursuant to the Company's Annual Incentive

Program and Long-Term Incentive Plan. Share-based compensation to non-employee trustees of the Company is determined pursuant to the Company's director compensation program. Prior to May 9, 2007, all common shares and options to purchase common shares (share options) were issued under the Company's 1997 Share Incentive Plan. The Company's 2007 Equity Incentive Plan was approved by shareholders at the May 9, 2007 annual meeting and this plan replaced the 1997 Share Incentive Plan.

Share based compensation expense consists of share option expense, amortization of nonvested share grants, and shares and 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 $3.0 million and $2.8 million for the six months ended June 30, 2012 and 2011, 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 to five 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.

The expense related to share options included in the determination of net income for the six months ended June 30, 2012 and 2011 was $481 thousand and $377 thousand, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates: risk-free interest rate of 1.1% to 1.4% and 2.5% to 3.1% for the six months ended June 30, 2012 and 2011, respectively, dividend yield of 6.3% to 6.7% for the six months ended June 30, 2012 and 6.4% for the six months ended June 30, 2011, volatility factors in the expected market price of the Company’s common shares of 51.3% to 51.4% for the six months ended June 30, 2012 and 39.8% for the six months ended June 30, 2011, 0.25% expected forfeiture rate for the six months ended June 30, 2012, no expected forfeitures for the six months ended June 30, 2011, an expected life of approximately six years for the six months ended June 30, 2012 and an expected life of approximately eight years for the six months ended June 30, 2011. 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.

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 five years). Total expense recognized related to all nonvested shares was $2.3 million and $2.1 million for the six months ended June 30, 2012 and 2011, 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 $250 thousand, and $241 thousand for the six months ended June 30, 2012 and 2011, 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.

The Company has made an accounting policy election under FASB ASU 2011-04 (Amendments to ASC 820) to use the exception in ASC 820-10-35-18D (commonly referred to as the “portfolio exception”) with respect to measuring counterparty credit risk for derivative instruments, consistent with the guidance in ASC 820-10-35-18G. The Company further documents that it meets the criteria for the exception in ASC 820-10-35-18E.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current period presentation.

3. Rental Properties

The following table summarizes the carrying amounts of rental properties as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Buildings and improvements	$1,654,885	$1,602,676
Furniture, fixtures & equipment	43,011	54,737
Land	491,942	496,879
	2,189,838	2,154,292
Accumulated depreciation	(355,945)	(335,116)
Total	$1,833,893	$1,819,176

Depreciation expense on rental properties was $23.6 million and $22.0 million for the six months ended June 30, 2012 and 2011, respectively.

4. Impairment Charges

During the three months ended March 31, 2012 or shortly thereafter, the Company entered into non-binding agreements to sell a portion of one of its vineyard properties as well as another winery, and began negotiations for the sale of three other vineyard and winery properties. As a result, in the first quarter of 2012, the Company revised its estimated undiscounted cash flows associated with each of these asset groups, considering the shorter expected holding periods, and determined that those estimated cash flows were not sufficient to recover the carrying values of these properties. The Company determined the estimated fair value of these assets (included in the Other segment) to be $47.1 million using Level 3 inputs and recorded impairment charges totaling $12.8 million during the first quarter of 2012. Management estimated the fair values of these properties taking into account the various purchase offers, pending purchase agreements, input from an outside broker and previous appraisals. At June 30, 2012, one of the vineyard and winery properties with a carrying value of $3.9 million has been classified as held for sale in the accompanying consolidated balance sheet, and the related results of operations, including the impairment of $0.8 million, has been classified within discontinued operations. Additionally, on May 25, 2012, the Company sold 197 plantable acres at its Buena Vista vineyard in Sonoma, California, and the related results of operations, including the

impairment of $3.8 million, has been classified within discontinued operations. See Note 15 for further details.

5. Investments and Dispositions

On January 1, 2012, the Company converted $14.9 million of equity in its unconsolidated joint venture, Atlantic-EPR I, to a secured first mortgage loan of the same amount with Cantera 30 Theatre, L.P, the entity that holds direct title to the underlying theatre investment located in Warrenville, Illinois. The note is secured by the theatre, bears interest at 9.50%, requires monthly interest payments and matures on January 31, 2018.

On February 23, 2012, the Company acquired two TopGolf golf and dining facilities for a purchase price of $20.0 million pursuant to a sale-leaseback transaction. The facilities are located in Allen and Dallas, Texas and are leased pursuant to a long-term triple-net master lease.

On February 28, 2012, the Company acquired two dining and entertainment facilities from Latitude Global, Inc. The facilities are located in Jacksonville, Florida and Indianapolis, Indiana and were acquired for a purchase price of $13.7 million. As a part of this transaction, the Company has agreed to finance an additional $7.3 million in construction costs for these two facilities of which $6.0 million has been funded through June 30, 2012.

On February 29, 2012, the Company entered into a secured first mortgage loan agreement for $19.3 million with Basis School, Inc. The loan is secured by a six story building and the underlying land with approximately 40,000 square feet located in Washington D.C., which is expected to be developed into a public charter school. The note bears interest beginning at 9.0% with increases of 0.5% every four years, requires monthly interest payments and matures on September 1, 2032. The carrying value of the mortgage note at June 30, 2012 was $15.7 million.

On May 25, 2012, the Company completed the sale of 197 plantable acres of its Buena Vista vineyard in Sonoma County, California for $13.0 million and a gain on sale of $0.4 million was recognized during the three months ended June 30, 2012. As further discussed in Note 15, the results of operations of the property have been classified within discontinued operations.

On June 14, 2012, the Company acquired one theatre property from Frank Theatres for a purchase price of $6.5 million pursuant to a sale-leaseback transaction. The 10-screen theatre is located in Southern Pines, North Carolina and is leased to Frank Theatres pursuant to a long-term triple-net lease.

On June 28, 2012, the Company entered into a secured first mortgage loan agreement for $36.0 million with Montparnasse 56 USA. The loan is secured by the observation deck of the John Hancock building in Chicago, Illinois. This note bears interest at 10.65%, requires monthly interest payments and matures on June 28, 2032. The carrying value of this mortgage note receivable at June 30, 2012 was $36.0 million, including related accrued interest receivable of $32 thousand.

During the six months ended June 30, 2012, the Company entered into development agreements to develop seven entertainment properties including six theatre properties. The Company has agreed to finance $64.4 million in development costs for these properties, of which $5.2 million has been funded through June 30, 2012.

Additionally during the six months ended June 30, 2012, the Company purchased four public charter school properties for a total initial investment of $4.1 million. Two of the properties are located in Salt Lake City and Hurricane, Utah and are leased to HighMark, and the other two properties are located in Buckeye and Queen Creek, Arizona and are leased to Portfolio Charter Investments. As a part of these transactions, the Company has agreed to finance an additional $30.1 million in development costs for these properties, of which $11.9 million was funded through June 30, 2012.

During the six months ended June 30, 2012, the Company advanced $8.9 million under its secured mortgage loan agreement with Peak Resorts, Inc. (Peak) to provide for additional improvements made to Mount Snow. The carrying

value of this mortgage note receivable at June 30, 2012 was $42.6 million. The maturity date for this mortgage loan agreement was extended to April 1, 2013 in accordance with a provision in the original loan agreement. Additionally, the Company advanced $2.4 million under another secured mortgage loan agreement with Peak to provide for additional improvements made to a ski resort in Bennington, New Hampshire.

6. Accounts Receivable, Net

The following table summarizes the carrying amounts of accounts receivable, net as of June 30, 2012 and December 31, 2011(in thousands):

	June 30, 2012	December 31, 2011
Receivable from tenants	$8,296	$6,874
Receivable from non-tenants	430	1,265
Receivable from Canada Revenue Agency	389	1,099
Straight-line rent receivable	26,959	26,499
Deferred rent receivable [1]	—	4,420
Allowance for doubtful accounts	(2,936)	(5,152)
Total	$33,138	$35,005

[1] At December 31, 2011, rent deferral payments of $3.4 million were guaranteed by a private equity firm and $1.0 million were unguaranteed but fully reserved. In June 2012, in conjunction with the tenant's sale of its operations, the guaranteed rent deferral payments of $3.4 million were paid in full, and unguaranteed rent deferral payments of $0.4 million were received and the remaining unguaranteed rent deferral payments of $0.6 million were written off to the previously established allowance for doubtful accounts.

7. Investment in a Direct Financing Lease

The Company’s investment in a direct financing lease relates to the Company’s master lease of 27 public charter school properties with affiliates of Imagine Schools, Inc. 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 June 30, 2012 and December 31, 2011(in thousands):

	June 30, 2012	December 31, 2011
Total minimum lease payments receivable	$672,087	$683,653
Estimated unguaranteed residual value of leased assets	215,987	215,987
Less deferred income [1]	(651,917)	(666,021)
Investment in a direct financing lease, net	$236,157	$233,619

[1] Deferred income is net of $1.8 million of initial direct costs at June 30, 2012 and December 31, 2011.

Additionally, the Company has determined that no allowance for losses was necessary at June 30, 2012 and December 31, 2011.

The Company’s direct financing lease has expiration dates ranging from approximately 20 to 23 years. Future minimum rentals receivable on this direct financing lease at June 30, 2012 are as follows (in thousands):

	Amount
Year:	
2012	$11,774
2013	24,041
2014	24,762
2015	25,505
2016	26,270
Thereafter	559,735
Total	$672,087

13

8. Unconsolidated Real Estate Joint Ventures

At June 30, 2012, the Company had a 39.1% and 29.2% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively. The Company accounts for its investment in these joint ventures under the equity method of accounting.

As further discussed in Note 5, on January 1, 2012, the Company converted a $14.9 million equity interest in Atlantic-EPR I to a secured first mortgage loan of the same amount. Additionally, Atlantic EPR I entered into an agreement to develop a family entertainment venue at the property it owns for approximately $4.0 million which is expected to be funded through additional advances under the mortgage note. The Company recognized a loss of $28 thousand and income of $1.4 million during the six months ended June 30, 2012 and 2011, respectively, from its equity investment in the Atlantic-EPR I joint venture. The Company also received distributions from Atlantic-EPR I of $410 thousand and $1.1 million on its equity investment during the six months ended June 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR I is as follows as of and for the six months ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Rental properties, net	$25,702	$26,346
Cash	10	1,178
Long-term debt (due January 2018)	15,165	—
Partners’ equity	10,683	27,634
Rental revenue	1,360	2,283
Net income (loss)	(97)	816

The Company recognized income of $213 thousand and $182 thousand from its equity investment in the Atlantic-EPR II joint venture during the six months ended June 30, 2012 and 2011, respectively. The Company also received distributions from Atlantic-EPR II of $228 thousand and $199 thousand on its equity investment during the six months ended June 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR II is as follows as of and for the six months ended June 30, 2012 and 2011(in thousands):

	2012	2011
Rental properties, net	$20,346	$20,807
Cash	131	231
Long-term debt (due September 2013)	12,028	12,413
Note payable to EPR	117	117
Partners’ equity	8,059	8,140
Rental revenue	1,444	1,444
Net income	728	679

The partnership agreements for Atlantic-EPR I and Atlantic-EPR II allow the Company’s partner, Atlantic of Hamburg, Germany (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 2011, the Company paid Atlantic cash of $2.5 million and $258 thousand in exchange for additional ownership of 11.3% (a portion of which related to 2010) and 2.0% for Atlantic-EPR I and Atlantic-EPR II, respectively. During 2012, the Company has paid Atlantic cash of $688 thousand and $443 thousand in exchange for additional ownership of 3.0% and 3.5% 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 June 30, 2012 and December 31, 2011, the Company had invested $4.4 million and $4.2 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. The Company recognized income of $140 thousand and $11 thousand from its investment in these joint ventures for the six months ended June

30, 2012 and 2011, respectively.

9. Long-Term Debt

On January 5, 2012, the Company entered into a new $240.0 million five-year unsecured term loan facility. The loan matures on January 5, 2017. The facility is priced based on a grid related to the Company's senior unsecured credit ratings, with pricing at closing of LIBOR plus 175 basis points. The Company also entered into interest rate swaps that effectively mitigate the Company's risk to variable interest rates and provide a fixed interest stream (when cash flows from the debt and interest rate swaps are combined) at 2.66% for four years. The new facility contains an “accordion” feature allowing it to be increased by up to an additional $110.0 million upon satisfaction of certain conditions. The net proceeds from this new unsecured term loan facility were primarily utilized to reduce the outstanding balance of the Company's unsecured revolving credit facility to zero at closing. At June 30, 2012, the Company had $112.0 million in debt outstanding under its $400.0 million unsecured revolving credit facility, and thus had $288.0 million of available capacity.

10. 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. 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 June 30, 2012, the Company has invested in one 50% joint venture which is a VIE. This joint venture did not have any significant assets and liabilities at June 30, 2012 and was established to explore certain investment opportunities.

Unconsolidated VIE
At June 30, 2012, the Company’s recorded investment in SVVI, a VIE that is unconsolidated, was $178.5 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 $178.5 million because there are no commitments to fund above this amount.

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. The Company does not have the power to direct these activities. Additionally, the Company does not have the right to receive benefits (beyond its interest payments per the note agreement) and does not have the obligation to absorb losses of SVVI, as its equity at risk is limited to the amount invested in the note.

11. Derivative Instruments

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

15

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fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

On February 7, 2011, the Company terminated six of its interest rate swap agreements as the related loan agreements were paid in full. These interest rate swaps had a combined notional amount of $87.7 million at termination and $4.6 million was reclassified into earnings as an expense during the six months ended June 30, 2011, as the forecasted future transactions were no longer probable.

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 a fixed rate of 2.66%.

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 six months ended June 30, 2012 and 2011, 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 six months ended June 30, 2012 and 2011.

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 June 30, 2012, the Company estimates that during the twelve months ending June 30, 2013, $1.5 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 through February 2014 as their impact on the Company's cash flow when settled should move in the opposite direction of the exchange rates utilized to translate revenues and expenses of these properties.

At June 30, 2012, the Company’s cross-currency swaps had 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 million of annual CAD denominated cash flows on the properties through February 2014.

The Company entered into foreign currency forward agreements to further hedge the currency fluctuations related to the cash flows of these properties. These foreign currency forwards settle at the end of each month from February to December 2012 and lock in an exchange rate of $1.00 CAD to $1.01 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 six months ended June 30, 2012 and 2011. As of June 30, 2012, the Company estimates that during the twelve months ending June 30, 2013, $0.3 million will be reclassified from AOCI to other expense.

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

16

U.S. with a February 2014 settlement which coincides with the maturity of the Company's underlying mortgage on these four properties. The exchange rate of this forward contract is approximately $1.04 CAD per U.S. dollar. This forward contract should hedge a significant portion of the Company's CAD denominated net investment in these four centers through February 2014 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.

In addition, on February 3, 2011, in order to hedge the foreign currency exposure related to the proceeds from the March 29, 2011 sale of a Canadian property, the Company entered into a forward contract to sell $200.0 million CAD for $201.5 million U.S. dollars. The contract settled in conjunction with the sale of the property on March 29, 2011 and the $4.3 million loss related to the settlement was recognized with the gain on sale of the property.

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 six months ended June 30, 2012 and 2011. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 12 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 six months ended June 30, 2012 and 2011.

Effect of Derivative Instruments on the Consolidated Statements of Changes in Equity and Income for the Three and Six Months Ended June 30, 2012 and 2011
(Dollars in thousands)

Description	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest Rate Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(2,560)	$—	$(3,926)	$(4,125)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (1)	(406)	—	(778)	(4,722)
Cross Currency Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	407	(339)	(114)	(1,479)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (2)	(108)	(286)	(275)	(499)
Currency Forward Agreements				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	1,484	(863)	344	(7,777)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (3)	16	(52)	16	(4,314)
Total				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(669)	$(1,202)	$(3,696)	$(13,381)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion)	(498)	(338)	(1,037)	(9,535)

(1) Included in "Interest expense, net" in accompanying consolidated statements of income for the three and six months ended June 30, 2012. $4.6 million included in "Costs associated with loan refinancing or payoff" and $137 thousand included in "Interest expense, net" in accompanying consolidated statements of income for the six months

ended June 30, 2011.

(2) Included in “Other expense” in the accompanying consolidated statements of income.

17

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(3) Included in "Other expense" in the accompanying consolidated statements of income for the three and six months ended June 30, 2012. $4.3 million included in "Gain on sale or acquisition of real estate" in the accompanying consolidated statements of income for the six months ended June 30, 2011. $52 thousand included in "Other expense" in the accompanying consolidated statements of income for the three and six months ended June 30, 2011.

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 indebtedness, 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 June 30, 2012, the fair value of the Company’s derivatives in a liability position related to these agreements was $4.7 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 $4.7 million.

12. Fair Value Disclosures

The Company’s 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). 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 utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2012, 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 June 30, 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 June 30, 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 June 30, 2012
Cross Currency Swaps*	$—	$(481)	$—	$(481)
Currency Forward Agreements*	$—	$(1,067)	$—	$(1,067)
Interest Rate Swap Agreements*	$—	$(3,149)	$—	$(3,149)

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

Non-recurring fair value measurements
The table below presents the Company’s assets measured at fair value on a non-recurring basis during the six months ended June 30, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.
Assets Measured at Fair Value on a Non-Recurring Basis During the Six Months Ended June 30, 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 June 30, 2012
Rental properties held for sale, net	$—	$—	$3,895	$3,895
Rental properties, net	$—	$—	$43,233	$43,233

As further discussed in Note 4, during the six months ended June 30, 2012, the Company recorded impairment charges of $12.8 million relating to adjustments to the carrying values of certain of the Company's vineyard and winery properties. The $12.8 million is the amount that the carrying values of the assets exceed the estimated fair market values. Of this amount, $12.0 million relates to rental properties, net and $0.8 million relates to rental properties held for sale, net. Management estimated the fair values of these properties taking into account the various purchase offers, pending purchase agreements, input from an outside broker and previous appraisals. Based on these inputs, the Company determined that its valuation of these investments was classified within Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments
Management compares the carrying value and 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 June 30, 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 June 30, 2012, the Company had a carrying value of $403.6 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.80%. The fixed rate mortgage notes bear interest at rates of 7.00% to 10.65%. Discounting the future cash flows for fixed rate mortgage notes receivable using an estimated weighted average market rate of 10.06%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately $378.7 million at June 30, 2012 .

Investment in a direct financing lease, net:
The fair value of the Company's investment in a direct financing lease as of June 30, 2012 is estimated by discounting the future cash flows of the instrument using current market rates. At June 30, 2012, the Company

19

had an investment in a direct financing lease with a carrying value of $236.2 million and a weighted average effective interest rate of 12.02%. The investment in direct financing lease bears interest at effective interest rates of 11.93% to 12.38%. The carrying value of the investment in a direct financing lease approximates the fair market value at June 30, 2012.

Cash and cash equivalents, restricted cash:
Due to the highly liquid nature of the Company's short term investments, the carrying values of its cash and cash equivalents and restricted cash approximate the fair market values at June 30, 2012.

Accounts receivable, net:
The carrying values of accounts receivable approximate the fair market value at June 30, 2012.

Notes and related accrued interest receivable, net:
The fair value of the Company’s notes and related accrued interest receivable as of June 30, 2012 is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2012, the Company had a carrying value of $5.0 million in fixed rate notes receivable outstanding, including related accrued interest and net of loan loss reserve, with a weighted average interest rate of approximately 8.45%. The fixed rate notes bear interest at rates of 6.00% to 15.00%. Discounting the future cash flows for fixed rate notes receivable using an estimated weighted average market rate of 9.40%, management estimates the fair value of the fixed rate notes receivable to be approximately $4.9 million at June 30, 2012.

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

Debt instruments:
The fair value of the Company's debt as of June 30, 2012 is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2012, the Company had a carrying value of $362.6 million in variable rate debt outstanding with a weighted average interest rate of approximately 1.89%. The carrying value of the variable rate debt outstanding approximates the fair market value at June 30, 2012. As described in Note 11, $240.0 million of variable rate debt outstanding at June 30, 2012 under our unsecured term loan facility has been effectively converted to a fixed rate through January 5, 2016 by interest rate swap agreements.

At June 30, 2012, the Company had a carrying value of $907.9 million in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 6.56%. Discounting the future cash flows for fixed rate debt using an estimated weighted average market rate of 4.64%, management estimates the fair value of the fixed rate debt to be approximately $961.6 million at June 30, 2012.

Accounts payable and accrued liabilities:
The carrying value of accounts payable and accrued liabilities approximates fair value at June 30, 2012 due to the short term maturities of these amounts.

Common and preferred dividends payable:
The carrying values of common and preferred dividends payable approximate fair value at June 30, 2012 due to the short term maturities of these amounts.

13. Earnings Per Share

The following table summarizes the Company's computation of basic and diluted earnings per share (EPS) for the three months ended June 30, 2012 and 2011 (amounts in thousands except per share information):

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$36,439			$62,433		
Less: preferred dividend requirements	(6,002)			(12,003)		
Noncontrolling interest adjustments	(19)			(37)		
Income from continuing operations available to common shareholders	$30,418	46,826	$0.65	$50,393	46,751	$1.08
Income (loss) from discontinued operations available to common shareholders	$379	46,826	$0.01	$(4,225)	46,751	$(0.09)
Net income available to common shareholders	$30,797	46,826	$0.66	$46,168	46,751	$0.99
Diluted EPS:						
Income from continuing operations available to common shareholders	$30,418	46,826		$50,393	46,751	
Effect of dilutive securities:						
Share options	—	242		—	255	
Income from continuing operations available to common shareholders	$30,418	47,068	$0.64	$50,393	47,006	$1.07
Income (loss) from discontinued operations available to common shareholders	$379	47,068	$0.01	$(4,225)	47,006	$(0.09)
Net income available to common shareholders	$30,797	47,068	$0.65	$46,168	47,006	$0.98

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$9,394			$34,583		
Less: preferred dividend requirements	(7,551)			(15,103)		
Noncontrolling interest adjustments	—			(2)		
Income from continuing operations available to common shareholders	$1,843	46,648	$0.04	$19,478	46,576	$0.42
Income (loss) from discontinued operations available to common shareholders	$(9,392)	46,648	$(0.20)	$7,152	46,576	$0.15
Net income (loss) available to common shareholders	$(7,549)	46,648	$(0.16)	$26,630	46,576	$0.57
Diluted EPS:						
Income from continuing operations available to common shareholders	$1,843	46,648		$19,478	46,576	
Effect of dilutive securities:						
Share options	—	308		—	304	
Income from continuing operations available to common shareholders	$1,843	46,956	$0.04	$19,478	46,880	$0.42
Income (loss) from discontinued operations available to common shareholders	$(9,392)	46,956	$(0.20)	$7,152	46,880	$0.15
Net income (loss) available to common shareholders	$(7,549)	46,956	$(0.16)	$26,630	46,880	$0.57

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 six months ended June 30, 2012 and 2011 because the effect is anti-dilutive.

14. Equity Incentive Plan

All grants of common shares and options to purchase common shares were issued under the Company's 1997 Share Incentive Plan prior to May 9, 2007, and under the Company's 2007 Equity Incentive Plan on and after May 9, 2007. Under the 2007 Equity Incentive Plan, an aggregate of 1,950,000 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 June 30, 2012, there were 455,500 shares available for grant under the 2007 Equity Incentive Plan.

Share Options
Share options granted under both the 1997 Share Incentive Plan and 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, however, this was typically at a rate of 20% per year over a five-year period for options granted prior to 2009. 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:

22

	Number of shares		Option price per share			Weighted avg. exercise price
Outstanding at December 31, 2011	1,002,833		$18.18	—	$65.50	$34.41
Exercised	(53,430	)	18.18	—	36.56	18.91
Granted	103,082		44.62	—	47.99	45.60
Forfeited	(396	)	18.18	—	46.69	40.03
Outstanding at June 30, 2012	1,052,089		$18.18	—	$65.50	$36.29

The weighted average fair value of options granted was $12.08 and $9.29 during the six months ended June 30, 2012 and 2011 , respectively. The intrinsic value of stock options exercised was $1.4 million and $1.8 million, during the six months ended June 30, 2012 and 2011, respectively. Additionally, the Company repurchased 32,684 shares into treasury shares in conjunction with the stock options exercised during the six months ended June 30, 2012 with a total value of $1.4 million. At June 30, 2012, stock-option expense to be recognized in future periods was $1.7 million.

The following table summarizes outstanding options at June 30, 2012:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	261,934	6.6		
20.00 - 29.99	168,971	0.7		
30.00 - 39.99	94,913	3.6		
40.00 - 49.99	412,918	6.3		
50.00 - 59.99	10,000	5.9		
60.00 - 65.50	103,353	4.6		
	1,052,089	5.1	$36.29	$9,047

The following table summarizes exercisable options at June 30, 2012:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	161,923	6.3		
20.00 - 29.99	168,971	0.7		
30.00 - 39.99	78,955	2.8		
40.00 - 49.99	247,488	4.5		
50.00 - 59.99	10,000	5.9		
60.00 - 65.50	103,353	4.6		
	770,690	4.0	$36.55	$6,700

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, 2011	350,863		$38.11	
Granted	148,095		45.20	
Vested	(175,965	)	35.97	
Forfeited	(185	)	$41.33	
Outstanding at June 30, 2012	322,808		$42.52	1.38

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 five years. The fair value of the nonvested shares that vested was $7.7 million and $7.3

million for the six months ended June 30, 2012 and 2011, respectively. At June 30, 2012, unamortized share-based compensation expense related to nonvested shares was $8.4 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, 2011	10,519	$47.77	
Granted	10,925	44.62	
Vested	(10,519)	47.77	
Outstanding at June 30, 2012	10,925	$44.62	0.86

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 June 30, 2012, unamortized share-based compensation expense related to restricted share units was $406 thousand.

15. Discontinued Operations

Included in discontinued operations for the three and six months ended June 30, 2012 are the operations of the Pope Valley winery which was held for sale as of June 30, 2012 as well as the operations of a portion of the Buena Vista vineyard property that was sold on May 25, 2012 for a gain of $0.4 million. The Company has no continuing operations or involvement at the portion of the Buena Vista property that was sold. Additionally, included in discontinued operations for the six months ended June 30, 2012 is a gain on sale or acquisition of real estate of $0.3 million that relates the to the settlement of escrow reserves established with the March 29, 2011 sale of Toronto Dundas Square, and impairment charges of $4.6 million related to the Pope Valley winery and the sold portion of the Buena Vista vineyard property. Included in discontinued operations for the three months ended June 30, 2011 are the operations of the prior mentioned properties as well as the operations and impairment charges related to the Gary Farrell winery sold on April 28, 2011 and the EOS Winery which was sold on September 20, 2011.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Rental revenue	$—	$1,050	$—	$5,053
Tenant reimbursements	—	62	—	2,408
Other income	—	—	—	—
Mortgage and other financing income	—	21	21	61
Total revenue	—	1,133	21	7,522
Property operating expense	(87)	143	(82)	3,068
Other expense	44	64	135	132
Costs associated with loan refinancing or payoff	—	—	—	1,049
Interest expense, net	—	—	(12)	100
Impairment charges	—	9,958	4,648	11,758
Depreciation and amortization	102	360	277	2,556
Loss before gain on sale or acquisition of real estate	(59)	(9,392)	(4,945)	(11,141)
Gain on sale or acquisition of real estate	438	—	720	18,293
Net income (loss)	$379	$(9,392)	$(4,225)	$7,152

24

16. Other Commitments and Contingencies

As of June 30, 2012, the Company had 10 entertainment development projects for which it has agreed to finance the development costs. At June 30, 2012, the Company had commitments to fund approximately $68.5 million of additional improvements which are expected to be funded in 2012. 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 agreements, 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 agreed to finance future development costs for seven of its education properties. At June 30, 2012, the Company had commitments to fund approximately $25.3 million of additional improvements for these properties which is expected to be funded in 2012. 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 provided a guarantee of the payment of certain economic development revenue bonds related to four theatres in Louisiana for which the Company earns a fee at annual rates of 1.75% to 2.88% over the 30-year term of the bond. The Company has recorded $4.5 million as a deferred asset included in other assets and $4.5 million included in other liabilities in the accompanying consolidated balance sheet as of June 30, 2012 related to this guarantee. No amounts have been accrued as a loss contingency related to this guarantee because we have determined that payment by the Company is not probable.

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 June 30, 2012, the Company had six mortgage notes receivable with commitments totaling approximately $36.3 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

On June 7, 2011, affiliates of Louis Cappelli, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC, filed a complaint with the Supreme Court of the State of New York, County of Sullivan, against a subsidiary of the Company seeking (i) a declaratory judgment on certain of the subsidiary's obligations under a previously disclosed settlement agreement involving these entities, (ii) an order that the Company subsidiary execute the golf course lease and the “Racino Parcel” lease subject to the settlement agreement, and (iii) an extension of the restrictive covenant against ownership or operation of a casino on the Concord resort property under the settlement agreement, which covenant was set to expire on December 31, 2011. On October 20, 2011, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC filed a complaint with the Supreme Court of the State of New York, County of Westchester against the Company and certain of its subsidiaries alleging breach of contract and breach of the duty of good faith and fair dealing with respect to a casino development agreement relating to a planned casino and resort development in Sullivan County, New York. Plaintiffs are seeking specific performance with respect to such agreement and money damages of $800.0 million, plus interest and attorneys' fees. On March 7, 2012, Concord Associates, L.P. and seven other companies affiliated with Mr. Cappelli and Concord Associates, L.P. filed a new complaint against the Company and certain of its subsidiaries, as well as Empire Resorts, Inc. and its subsidiary Monticiello Raceway Management, Inc., in the United States District Court for the Southern District of New York. On June 25, 2012, an amended complaint was served against the same parties as well as Kien Huat Realty III Limited and Genting New York , LLC (Genting Parties). The amended complaint alleges unlawful restraint of trade, conspiracy to monopolize, unlawful monopolization, against the Company, the Empire Resorts parties and the Genting Parties as well as tortious interference against the Empire Resorts parties and the Genting Parties, in relation to a proposed development transaction on the same Sullivan County, New York resort property. Plaintiffs seek damages of $1.5

billion, plus interest and attorneys' fees. The Company intends to vigorously defend the claims asserted against the Company and certain of its subsidiaries by the Concord entities for which it believes it has meritorious defenses, but it is too early to assess the outcome.

On June 18, 2012, Concord Kiamesha Casino, LLC, an affiliate of Concord Associates, L.P., exercised the right to ground lease approximately 57 acres of former Concord Resort property from the Company, pursuant to agreements entered into as part of the June 18, 2010 settlement between the parties. The affiliate has the right to ground lease the parcel (with option to purchase) for a five year period with annual rent payments of $200 thousand due in advance. Additionally, as agreed in the June 18, 2010 settlement, Concord Associates, L.P. has the right to purchase the Company's fee simple interest underlying the ground lease for $1.00 provided that construction of the harness racetrack and casino project is completed prior to the end of the ground lease term. The ground lease covers property which is not included in the Company's separate agreements with Empire Resorts and has no effect on the Company's development plans.

Concord Associates, L.P.'s separate option to acquire all of the Company's property at the former Concord Resort expired unexercised on June 11, 2012. This option was recorded at fair value as noncontrolling interest at the time of settlement which was determined to be $27.8 million. During the three months ended June 30, 2012, the Company reduced the value of the noncontrolling interest to zero and recorded an adjustment to increase additional paid-in-capital by the same amount.

17. Condensed Consolidating Financial Statements

A portion of the Company's subsidiaries have guaranteed the Company’s indebtedness under the Company's unsecured 7.750% senior notes due 2020, the unsecured revolving credit facility and the unsecured term loan facility. The guarantees are joint and several, full and unconditional, subject to customary release provisions. The following summarizes the Company’s condensed consolidating information as of June 30, 2012 and 2011 and for the three and six months ended June 30, 2012 and 2011 (in thousands):
Condensed Consolidating Balance Sheet
As of June 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets					
Rental properties, net	$—	$747,359	$1,086,534	$—	$1,833,893
Rental properties held for sale, net	—	—	3,895	—	3,895
Land held for development	—	—	188,874	—	188,874
Property under development	—	35,475	4,666	—	40,141
Mortgage notes and related accrued interest receivable, net	—	371,237	32,382	—	403,619
Investment in a direct financing lease, net	—	236,157	—	—	236,157
Investment in joint ventures	6,205	—	4,372	—	10,577
Cash and cash equivalents	3,432	60	9,247	—	12,739
Restricted cash	—	11,673	7,492	—	19,165
Intangible assets, net	—	—	3,871	—	3,871
Deferred financing costs, net	10,711	5,643	2,098	—	18,452
Accounts receivable, net	1,009	7,383	24,746	—	33,138
Intercompany notes receivable	101,274	—	3,966	(105,240)	—
Notes receivable and related accrued interest receivable, net	179	—	4,828	—	5,007
Investments in subsidiaries	1,890,473	—	—	(1,890,473)	—
Other assets	14,068	3,333	6,738	—	24,139
Total assets	$2,027,351	$1,418,320	$1,383,709	$(1,995,713)	$2,833,667
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	$24,017	$8,614	$4,854	$—	$37,485
Dividends payable	41,130	—	—	—	41,130
Unearned rents and interest	—	10,353	1,629	—	11,982
Intercompany notes payable	—	—	105,240	(105,240)	—
Long-term debt	490,000	112,000	668,560	—	1,270,560
Total liabilities	555,147	130,967	780,283	(105,240)	1,361,157
Entertainment Properties Trust shareholders’ equity	1,472,204	1,287,353	603,120	(1,890,473)	1,472,204
Noncontrolling interests	—	—	306	—	306
Total equity	1,472,204	1,287,353	603,426	(1,890,473)	1,472,510
Total liabilities and equity	$2,027,351	$1,418,320	$1,383,709	$(1,995,713)	$2,833,667

27

Condensed Consolidating Balance Sheet
As of December 31, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets					
Rental properties, net	$—	$694,331	$1,124,845	$—	$1,819,176
Rental properties held for sale, net	—	—	4,696	—	4,696
Land held for development	—	—	184,457	—	184,457
Property under development	—	18,295	4,466	—	22,761
Mortgage notes and related accrued interest receivable, net	—	323,794	1,303	—	325,097
Investment in a direct financing lease, net	—	233,619	—	—	233,619
Investment in joint ventures	20,821	—	4,232	—	25,053
Cash and cash equivalents	1,932	302	12,391	—	14,625
Restricted cash	—	9,871	9,441	—	19,312
Intangible assets, net	—	—	4,485	—	4,485
Deferred financing costs, net	9,291	6,512	2,724	—	18,527
Accounts receivable, net	79	6,051	28,875	—	35,005
Intercompany notes receivable	100,030	—	3,788	(103,818)	—
Notes receivable and related accrued interest receivable, net	175	—	4,840	—	5,015
Investments in subsidiaries	1,627,298	—	—	(1,627,298)	—
Other assets	14,694	3,453	4,020	—	22,167
Total assets	$1,774,320	$1,296,228	$1,394,563	$(1,731,116)	$2,733,995
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	$15,560	$8,794	$11,682	$—	$36,036
Dividends payable	38,711	—	—	—	38,711
Unearned rents and interest	—	5,405	1,445	—	6,850
Intercompany notes payable	—	—	103,818	(103,818)	—
Long-term debt	250,000	223,000	681,295	—	1,154,295
Total liabilities	304,271	237,199	798,240	(103,818)	1,235,892
Entertainment Properties Trust shareholders' equity	1,470,049	1,059,029	568,269	(1,627,298)	1,470,049
Noncontrolling interests	—	—	28,054	—	28,054
Total equity	1,470,049	1,059,029	596,323	(1,627,298)	1,498,103
Total liabilities and equity	$1,774,320	$1,296,228	$1,394,563	$(1,731,116)	$2,733,995

Condensed Consolidating Statement of Income
For the Three Months Ended June 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$23,154	$36,057	$—	$59,211
Tenant reimbursements	—	279	4,086	—	4,365
Other income	23	(7)	91	—	107
Mortgage and other financing income	109	14,276	871	—	15,256
Intercompany fee income	667	—	—	(667)	—
Interest income on intercompany notes receivable	4,165	—	87	(4,252)	—
Total revenue	4,964	37,702	41,192	(4,919)	78,939
Equity in subsidiaries' earnings	38,783	—	—	(38,783)	—
Property operating expense	—	881	4,364	—	5,245
Intercompany fee expense	—	—	667	(667)	—
Other expense	—	—	431	—	431
General and administrative expense	—	2,724	3,097	—	5,821
Interest expense, net	6,800	1,205	10,454	—	18,459
Interest expense on intercompany notes payable	—	—	4,252	(4,252)	—
Transaction costs	31	—	—	—	31
Impairment charges	—	—	—	—	—
Depreciation and amortization	253	4,302	8,236	—	12,791
Income before equity in income from joint ventures and discontinued operations	36,663	28,590	9,691	(38,783)	36,161
Equity in income from joint ventures	136	—	142	—	278
Income from continuing operations	$36,799	$28,590	$9,833	$(38,783)	$36,439
Discontinued operations:					
Loss from discontinued operations	—	(3)	(56)	—	(59)
Gain on sale or acquisition of real estate	—	—	438	—	438
Net income	36,799	28,587	10,215	(38,783)	36,818
Add: Net income attributable to noncontrolling interests	—	—	(19)	—	(19)
Net income attributable to Entertainment Properties Trust	36,799	28,587	10,196	(38,783)	36,799
Preferred dividend requirements	(6,002)	—	—	—	(6,002)
Net income available to common shareholders of Entertainment Properties Trust	$30,797	$28,587	$10,196	$(38,783)	$30,797
Comprehensive income (loss) attributable to Entertainment Properties Trust	$33,718	$28,657	$9,199	$(37,856)	$33,718

Condensed Consolidating Statement of Income
For the Three Months Ended June 30, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$20,079	$35,945	$—	$56,024
Tenant reimbursements	—	319	4,196	—	4,515
Other income	23	7	101	—	131
Mortgage and other financing income	131	13,457	159	—	13,747
Intercompany fee income	699	—	—	(699)	—
Interest income on intercompany notes receivable	4,275	—	606	(4,881)	—
Total revenue	5,128	33,862	41,007	(5,580)	74,417
Equity in subsidiaries' earnings	(752)	—	—	752	—
Property operating expense	—	948	5,631	—	6,579
Intercompany fee expense	—	—	699	(699)	—
Other expense	—	—	677	—	677
General and administrative expense	—	2,324	2,781	—	5,105
Interest expense, net	4,808	1,669	10,810	—	17,287
Interest expense on intercompany notes payable	—	—	4,881	(4,881)	—
Transaction costs	76	—	—	—	76
Impairment charges	—	—	24,298	—	24,298
Depreciation and amortization	265	3,478	8,039	—	11,782
Income (loss) before equity in income from joint ventures and discontinued operations	(773)	25,443	(16,809)	752	8,613
Equity in income from joint ventures	775	—	6	—	781
Income (loss) from continuing operations	$2	$25,443	$(16,803)	$752	$9,394
Discontinued operations:					
Income from discontinued operations	—	30	536	—	566
Impairment charges	—	—	(9,958)	—	(9,958)
Net income (loss)	2	25,473	(26,225)	752	2
Add: Net income attributable to noncontrolling interests	—	—	—	—	—
Net income (loss) attributable to Entertainment Properties Trust	2	25,473	(26,225)	752	2
Preferred dividend requirements	(7,551)	—	—	—	(7,551)
Net income (loss) available to common shareholders of Entertainment Properties Trust	$(7,549)	$25,473	$(26,225)	$752	$(7,549)
Comprehensive income (loss) attributable to Entertainment Properties Trust	(34)	25,470	(26,258)	788	(34)

30

Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$45,129	$72,365	$—	$117,494
Tenant reimbursements	—	525	8,661	—	9,186
Other income	46	(6)	93	—	133
Mortgage and other financing income	204	28,251	1,521	—	29,976
Intercompany fee income	1,343	—	—	(1,343)	—
Interest income on intercompany notes receivable	8,380	—	172	(8,552)	—
Total revenue	9,973	73,899	82,812	(9,895)	156,789
Equity in subsidiaries' earnings	62,232	—	—	(62,232)	—
Property operating expense	—	1,878	9,541	—	11,419
Intercompany fee expense	—	—	1,343	(1,343)	—
Other expense	—	—	916	—	916
General and administrative expense	—	5,708	6,580	—	12,288
Interest expense, net	13,521	2,123	20,956	—	36,600
Interest expense on intercompany notes payable	—	—	8,552	(8,552)	—
Transaction costs	189	—	—	—	189
Impairment charges	—	—	8,195	—	8,195
Depreciation and amortization	509	8,360	16,204	—	25,073
Income before equity in income from joint ventures and discontinued operations	57,986	55,830	10,525	(62,232)	62,109
Equity in income from joint ventures	185	—	139	—	324
Income from continuing operations	$58,171	$55,830	$10,664	$(62,232)	$62,433
Discontinued operations:					
Income (loss) from discontinued operations	—	5	(302)	—	(297)
Impairment charges	—	—	(4,648)	—	(4,648)
Gain on sale or acquisition of real estate	—	282	438	—	720
Net income	58,171	56,117	6,152	(62,232)	58,208
Add: Net income attributable to noncontrolling interests	—	—	(37)	—	(37)
Net income attributable to Entertainment Properties Trust	58,171	56,117	6,115	(62,232)	58,171
Preferred dividend requirements	(12,003)	—	—	—	(12,003)
Net income available to common shareholders of Entertainment Properties Trust	$46,168	$56,117	$6,115	$(62,232)	$46,168
Comprehensive income attributable to Entertainment Properties Trust	$55,388	$56,132	$6,466	$(62,598)	$55,388

Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$39,774	$71,632	$—	$111,406
Tenant reimbursements	—	661	8,515	—	9,176
Other income	46	7	102	—	155
Mortgage and other financing income	212	26,698	352	—	27,262
Intercompany fee income	1,384	—	—	(1,384)	—
Interest income on intercompany notes receivable	8,394	—	1,197	(9,591)	—
Total revenue	10,036	67,140	81,798	(10,975)	147,999
Equity in subsidiaries' earnings	37,864	—	—	(37,864)	—
Property operating expense	—	1,911	10,858	—	12,769
Intercompany fee expense	—	—	1,384	(1,384)	—
Other expense	—	—	1,157	—	1,157
General and administrative expense	—	4,708	5,865	—	10,573
Costs associated with loan refinancing or payoff	—	—	5,339	—	5,339
Interest expense, net	9,907	4,145	21,979	—	36,031
Interest expense on intercompany notes payable	—	—	9,591	(9,591)	—
Transaction costs	1,025	—	324	—	1,349
Impairment charges	—	—	24,298	—	24,298
Depreciation and amortization	534	6,955	15,966	—	23,455
Income (loss) before equity in income from joint ventures and discontinued operations	36,434	49,421	(14,963)	(37,864)	33,028
Equity in income from joint ventures	1,544	—	11	—	1,555
Income (loss) from continuing operations	$37,978	$49,421	$(14,952)	$(37,864)	$34,583
Discontinued operations:					
Interest income on intercompany notes receivable	3,755	—	—	(3,755)	—
Interest expense on intercompany notes payable	—	(3,755)	—	3,755	—
Income (loss) from discontinued operations	—	1,814	(148)	—	1,666
Impairment charges	—	—	(11,758)	—	(11,758)
Costs associated with loan refinancing or payoff	—	—	(1,049)	—	(1,049)
Gain on sale or acquisition of real estate	—	18,293	—	—	18,293
Net income (loss)	41,733	65,773	(27,907)	(37,864)	41,735
Add: Net income attributable to noncontrolling interests	—	—	(2)	—	(2)
Net income (loss) attributable to Entertainment Properties Trust	41,733	65,773	(27,909)	(37,864)	41,733
Preferred dividend requirements	(15,103)	—	—	—	(15,103)

Net income (loss) available to common shareholders of Entertainment Properties Trust	$26,630	$65,773	$(27,909)	$(37,864)	$26,630
Comprehensive income (loss) attributable to Entertainment Properties Trust	$47,445	$70,679	$(27,103)	$(43,576)	$47,445

32

Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	$1,343	$—	$(1,343)	$—
Interest income (expense) on intercompany receivable/payable	8,380	—	(8,380)	—
Net cash provided (used) by other operating activities	(8,976)	64,469	45,779	101,272
Net cash provided by operating activities of continuing operations	747	64,469	36,056	101,272
Net cash provided by operating activities of discontinued operations	—	1,065	1,103	2,168
Net cash provided by operating activities	747	65,534	37,159	103,440
Investing activities:				
Acquisition of rental properties and other assets	(87)	(39,654)	(683)	(40,424)
Investment in unconsolidated joint ventures	(661)	—	—	(661)
Investment in mortgage notes receivable	—	(48,339)	(16,222)	(64,561)
Additions to property under development	—	(37,845)	(5,752)	(43,597)
Investment in (repayment of) intercompany notes payable	(1,244)	—	1,244	—
Advances to subsidiaries, net	(151,844)	170,780	(18,936)	—
Net cash provided (used) by investing activities of continuing operations	(153,836)	44,942	(40,349)	(149,243)
Net proceeds from sale of real estate from discontinued operations	—	282	12,687	12,969
Net cash provided (used) by investing activities	(153,836)	45,224	(27,662)	(136,274)
Financing activities:				
Proceeds from long-term debt facilities	240,000	156,000	—	396,000
Principal payments on long-term debt	—	(267,000)	(12,663)	(279,663)
Deferred financing fees paid	(2,091)	—	(10)	(2,101)
Net proceeds from issuance of common shares	133	—	—	133
Impact of stock option exercises, net	(480)	—	—	(480)
Purchase of common shares for treasury	(3,209)	—	—	(3,209)
Dividends paid to shareholders	(79,764)	—	—	(79,764)
Net cash provided (used) by financing	154,589	(111,000)	(12,673)	30,916
Effect of exchange rate changes on cash	—	—	32	32
Net increase (decrease) in cash and cash equivalents	1,500	(242)	(3,144)	(1,886)
Cash and cash equivalents at beginning of the period	1,932	302	12,391	14,625
Cash and cash equivalents at end of the period	$3,432	$60	$9,247	$12,739

33

Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	$1,384	$—	$ (1,384)	$—
Interest income (expense) on intercompany receivable/payable	8,394	—	(8,394)	—
Net cash provided by other operating activities	3,511	51,807	34,504	89,822
Net cash provided by operating activities of continuing operations	13,289	51,807	24,726	89,822
Net cash provided by operating activities of discontinued operations	—	3,079	(571)	2,508
Net cash provided by operating activities	13,289	54,886	24,155	92,330
Investing activities:				
Acquisition of rental properties and other assets	(479)	(28,973)	(9,472)	(38,924)
Investment in unconsolidated joint ventures	(1,587)	—	(1,197)	(2,784)
Investment in mortgage note receivable	—	(6,036)	—	(6,036)
Investment in a direct financing lease, net	—	(2,113)	—	(2,113)
Additions to property under development	—	(10,329)	(8,108)	(18,437)
Investment in (repayment of) intercompany notes payable	128,917	(132,067)	3,150	—
Advances to subsidiaries, net	(59,072)	(28,939)	88,011	—
Net cash provided (used) by investing activities of continuing operations	67,779	(208,457)	72,384	(68,294)
Net cash used in investing activites of discontinued operations	—	(58)	—	(58)
Net proceeds from sale of discontinued operations	—	205,936	6,460	212,396
Net cash provided (used) in investing activites	67,779	(2,579)	78,844	144,044
Financing activities:				
Proceeds from long-term debt facilities	—	195,000	—	195,000
Principal payments on long-term debt	—	(247,000)	(98,352)	(345,352)
Deferred financing fees paid	(347)	(587)	—	(934)
Net proceeds from issuance of common shares	145	—	—	145
Impact of stock option exercises, net	(499)	—	—	(499)
Proceeds from payment on shareholder loan	—	—	—	—
Purchase of common shares for treasury	(3,070)	—	—	(3,070)
Distributions paid to noncontrolling interests	—	—	—	—
Dividends paid to shareholders	(77,951)	—	—	(77,951)
Net cash used by financing activities	(81,722)	(52,587)	(98,352)	(232,661)
Effect of exchange rate changes on cash	—	20	231	251
Net increase (decrease) in cash and cash equivalents	(654)	(260)	4,878	3,964
Cash and cash equivalents at beginning of the period	3,356	1,116	7,304	11,776
Cash and cash equivalents at end of the period	$2,702	$856	$ 12,182	$15,740

34

18. Segment Information

Due to further refinement of internal processes during the first quarter of 2012, the Company began grouping 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 now regularly reviews and manages its business:

Balance Sheet Data:

	As of June 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Total Assets	1,765,830	328,535	377,105	290,898	71,299	2,833,667

	As of December 31, 2011					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Total Assets	1,710,750	286,115	343,408	317,259	76,463	2,733,995

Operating Data:

	For the Three Months Ended June 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$55,034	$1,720	$797	$1,660	$ —	$59,211
Tenant reimbursements	4,365	—	—	—	—	4,365
Other income	21	—	—	86	—	107
Mortgage and other financing income	498	7,548	7,143	67	—	15,256
Total revenue	59,918	9,268	7,940	1,813	—	78,939
Property operating expense	5,432	—	—	(187)	—	5,245
Other expense	—	—	—	339	92	431
Total investment expenses	5,432	—	—	152	92	5,676
Net Operating Income - Before Unallocated Items	54,486	9,268	7,940	1,661	(92)	73,263

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(5,821)
Interest expense, net	(18,459)
Transaction costs	(31)
Depreciation and amortization	(12,791)
Equity in income from joint ventures	278
Discontinued operations:	
Loss from discontinued operations	(59)
Gain on sale or acquisition of real estate	438
Net income	36,818
Noncontrolling interests	(19)
Preferred dividend requirements	(6,002)
Net income available to common shareholders	$30,797

35

	For the Three Months Ended June 30, 2011					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$53,811	$144	$318	$1,751	$ —	$56,024
Tenant reimbursements	4,515	—	—	—	—	4,515
Other income	44	—	—	87	—	131
Mortgage and other financing income	81	7,062	6,481	73	50	13,747
Total revenue	58,451	7,206	6,799	1,911	50	74,417
Property operating expense	6,277	—	—	302	—	6,579
Other expense	—	—	—	339	338	677
Total investment expenses	6,277	—	—	641	338	7,256
Net Operating Income - Before Unallocated Items	52,174	7,206	6,799	1,270	(288)	67,161
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(5,105)
Interest expense, net						(17,287)
Transaction costs						(76)
Impairment charges						(24,298)
Depreciation and amortization						(11,782)
Equity in income from joint ventures						781
Discontinued operations:						
Income from discontinued operations						566
Impairment charges						(9,958)
Net income						2
Noncontrolling interests						—
Preferred dividend requirements						(7,551)
Net loss available to common shareholders						$(7,549)

	For the Six Months Ended June 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$109,595	$3,141	$1,316	$3,442	$ —	$117,494
Tenant reimbursements	9,186	—	—	—	—	9,186
Other income	46	—	—	87	—	133
Mortgage and other financing income	945	14,843	14,049	139	—	29,976
Total revenue	119,772	17,984	15,365	3,668	—	156,789
Property operating expense	11,437	—	—	(18)	—	11,419
Other expense	—	—	—	657	259	916
Total investment expenses	11,437	—	—	639	259	12,335
Net Operating Income - Before Unallocated Items	108,335	17,984	15,365	3,029	(259)	144,454

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(12,288)
Interest expense, net	(36,600)
Transaction costs	(189)
Impairment charges	(8,195)
Depreciation and amortization	(25,073)
Equity in income from joint ventures	324
Discontinued operations:	
Income from discontinued operations	(297)
Impairment charges	(4,648)
Gain on sale or acquisition of real estate	720
Net income	58,208
Noncontrolling interests	(37)
Preferred dividend requirements	(12,003)
Net income available to common shareholders	$46,168

	For the Six Months Ended June 30, 2011					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$107,043	$156	$636	$3,571	$ —	$111,406
Tenant reimbursements	9,176	—	—	—	—	9,176
Other income	66	—	—	89	—	155
Mortgage and other financing income	162	14,013	12,857	180	50	27,262
Total revenue	116,447	14,169	13,493	3,840	50	147,999
Property operating expense	12,290	—	—	479	—	12,769
Other expense	—	—	—	585	572	1,157
Total investment expenses	12,290	—	—	1,064	572	13,926
Net Operating Income - Before Unallocated Items	104,157	14,169	13,493	2,776	(522)	134,073

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(10,573)
Costs associated with loan refinancing or payoff	(5,339)
Interest expense, net	(36,031)
Transaction costs	(1,349)
Impairment charges	(24,298)
Depreciation and amortization	(23,455)
Equity in income from joint ventures	1,555
Discontinued operations:	
Income from discontinued operations	1,666
Impairment charges	(11,758)
Costs associated with loan refinancing or payoff	(1,049)
Gain on sale or acquisition of real estate	18,293
Net income	41,735
Noncontrolling interests	(2)
Preferred dividend requirements	(15,103)
Net income available to common shareholders	$26,630

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto on this Form 10-Q of Entertainment Properties Trust ("the Company", "EPR", "we" or "us"). The forward-looking statements included in this discussion and elsewhere on this Form 10-Q involve risks and uncertainties, including anticipated financial performance, business prospects, industry trends, shareholder returns, performance of leases by tenants, performance on loans to customers and other matters, which reflect management's best judgment based on factors currently known. See "Cautionary Statement Concerning Forward-Looking Statements" which is incorporated herein by reference. Actual results and experience could differ materially from the anticipated results and other expectations expressed in our forward-looking statements as a result of a number of factors, including but not limited to those discussed in this Item, Item 1A. "Risk Factors" in this Form 10-Q and Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on February 24, 2012.

Overview

Our principal business objective is to enhance shareholder value by achieving predictable and increasing Funds From Operations ("FFO") and dividends per share. Our prevailing strategy is to focus on long-term investments in a limited number of categories in which we maintain a depth of knowledge and relationships, and which we believe offer sustained performance throughout all economic cycles. As of June 30, 2012, our total assets exceeded $2.8 billion, and included investments in 113 megaplex theatre properties (including two joint venture properties), 39 public charter school properties (including five properties under construction) and various restaurant, retail, entertainment, destination recreational and specialty properties located in 36 states, the District of Columbia and Ontario, Canada. As of June 30, 2012, we had invested approximately $229.0 million in development land and property under development and approximately $403.6 million in mortgage financing for entertainment, recreational and specialty properties.

Substantially all of our single-tenant properties are leased pursuant to long-term, triple-net leases, under which the tenants typically pay all operating expenses of a property, including, but not limited to, all real estate taxes, assessments and other governmental charges, insurance, utilities, repairs and maintenance. A majority of our revenues are derived from rents received or accrued under long-term, triple-net leases. Tenants at our multi-tenant properties are typically required to pay common area maintenance charges to reimburse us for their pro rata portion of these costs.

Our real estate mortgage portfolio consists of 11 mortgage notes totaling $403.6 million at June 30, 2012. Two of these mortgage notes, totaling $178.5 million at June 30, 2012, are secured by a water-park anchored entertainment village in Kansas City, Kansas as well as two other water-parks in Texas. The remaining mortgage notes include five mortgage notes totaling $156.7 million related to financing provided for ski areas, two mortgage notes totaling $17.2 million related to financing for the development of two public charter school properties, one $15.2 million mortgage note related to our Atlantic-EPR I joint venture and one $36.0 million mortgage note related to financing for the observation deck at the John Hancock building in Chicago, Illinois.

Our total investments were approximately $3.1 billion at June 30, 2012. Total investments is a non-GAAP financial measure defined herein as the sum of the carrying values of rental properties and rental properties held for sale (before accumulated depreciation), land held for development, property under development, mortgage notes receivable (including related accrued interest receivable), net, investment in a direct financing lease, net, investment in joint ventures, intangible assets (before accumulated amortization) and notes receivable and related accrued interest receivable, net. Below is a reconciliation of the carrying value of total investments to the constituent items in the consolidated balance sheet at June 30, 2012 (in thousands):

Rental properties, net of accumulated depreciation	$1,833,893
Rental properties held for sale, net of accumulated depreciation	3,895
Add back accumulated depreciation on rental properties	355,945
Add back accumulated depreciation on rental properties held for sale	319
Land held for development	188,874
Property under development	40,141
Mortgage notes and related accrued interest receivable, net	403,619
Investment in a direct financing lease, net	236,157
Investment in joint ventures	10,577
Intangible assets, net of accumulated amortization	3,871
Add back accumulated amortization on intangible assets	10,151
Notes receivable and related accrued interest receivable, net	5,007
Total investments	$3,092,449

Management believes that total investments is a useful measure for management and investors as it illustrates across which asset categories the Company’s funds have been invested. Total investments is a non-GAAP financial measure and is not a substitute for total assets under GAAP. Furthermore, total investments may not be comparable to similarly titled financial measures reported by other companies due to differences in the way the Company calculates this

measure.

Of our total investments of $3.1 billion at June 30, 2012, $2.1 billion or 68% related to entertainment properties which includes megaplex theatres, entertainment retail centers and other retail parcels, $328.5 million or 10% related to education properties which includes public charter schools, $368.2 million or 12% related to recreation properties and $307.0 million or 10% related to other properties, including $184.4 million related to the land held for development in Sullivan County, New York and $122.6 million related to vineyards and wineries. At June 30, 2012, affiliates of Imagine Schools, Inc. ("Imagine") were the lessees of 69% of our public charter school properties (including properties under construction). Similarly, Peak Resorts, Inc. ("Peak") is the lessee of our metropolitan ski area in Ohio and is the mortgagor on five notes receivable secured by ten metropolitan ski areas and related development land.

We incur general and administrative expenses including compensation expense for our executive officers and other employees, professional fees and various expenses incurred in the process of identifying, evaluating, acquiring and financing additional properties and mortgage notes. We are self-administered and managed by our Board of Trustees and executive officers. Our primary non-cash expense is the depreciation of our properties. We depreciate buildings, improvements on our properties and furniture, fixtures and equipment over a 3 to 40 year period for tax purposes and financial reporting purposes.

Our property acquisitions and financing commitments are financed by cash from operations, borrowings under our unsecured revolving credit facility and unsecured term loan facility, long-term mortgage debt, and the sale of debt and equity securities. It has been our strategy to structure leases and financings to ensure a positive spread between our cost of capital and the rentals paid by our tenants. We have primarily acquired or developed new properties that are pre-leased to a single tenant or multi-tenant properties that have a high occupancy rate. We do not typically develop or acquire properties that are not significantly pre-leased. We have also entered into certain joint ventures and we have provided mortgage note financing as described above. We intend to continue entering into some or all of these types of arrangements in the foreseeable future.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has made its best estimates and assumptions that affect the reported assets and liabilities. The most significant assumptions and estimates relate to consolidation, revenue recognition, depreciable lives of the real estate, the valuation of real estate, accounting for real estate acquisitions, estimating reserves for uncollectible receivables and the accounting for mortgage and other notes receivable, all of which are described as our critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2011. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates. Except as noted below, for the six months ended June 30, 2012, there were no changes to critical accounting policies.

Operating Segments
For financial reporting purposes, we group our investments into four reportable operating segments: entertainment, education, recreation and other. See Note 18 to the consolidated financial statements included in this Form 10-Q for financial information related to these operating segments.

Recent Developments

Debt Financing
On January 5, 2012, we entered into a new $240.0 million five-year unsecured term loan facility. The loan matures on January 5, 2017. The facility is priced based on a grid related to our senior unsecured credit ratings, with pricing at closing of LIBOR plus 175 basis points. We also entered into interest rate swaps that effectively mitigate our risk to

variable interest rates and provide a fixed interest stream (when cash flows from the debt and interest rate swaps are combined) at 2.66% for 4 years. The new facility also contains an “accordion” feature allowing it to be increased by up to an additional $110.0 million upon satisfaction of certain conditions. The net proceeds from this new unsecured term loan facility were primarily utilized to reduce the outstanding balance of our unsecured revolving credit facility

to zero at closing.

Investments
On January 1, 2012, we converted $14.9 million of equity in our unconsolidated joint venture, Atlantic-EPR I, to a secured first mortgage loan of the same amount with Cantera 30 Theatre, L.P, the entity that holds direct title to the underlying theatre investment located in Warrenville, Illinois. The note is secured by the theatre, bears interest at 9.50%, requires monthly interest payments and matures on January 31, 2018.

On February 23, 2012, we acquired two TopGolf golf and dining facilities for a purchase price of $20.0 million pursuant to a sale-leaseback transaction. The facilities are located in Allen and Dallas, Texas and are leased pursuant to a long-term triple-net master lease.

On February 28, 2012, we acquired two dining and entertainment facilities from Latitude Global, Inc. The facilities are located in Jacksonville, Florida and Indianapolis, Indiana and were acquired for a purchase price of $13.7 million. As a part of this transaction, we have agreed to finance an additional $7.3 million in construction costs for these two facilities of which $6.0 million has been funded through June 30, 2012.

On February 29, 2012, we entered into a secured first mortgage loan agreement for $19.3 million with Basis School, Inc. The loan is secured by a six story building and the underlying land with approximately 40,000 square feet located in Washington D.C., which is expected to be developed into a public charter school. The note bears interest beginning at 9.00% with increases of 0.5% every four years, requires monthly interest payments and matures on September 1, 2032. The carrying value of the mortgage note at June 30, 2012 was $15.7 million.

On June 14, 2012, we acquired one theatre property from Frank Theatres for a purchase price of $6.5 million pursuant to a sale-leaseback transaction. The 10-screen theatre is located in Southern Pines, North Carolina and is leased to Frank Theatres pursuant to a long-term triple-net lease.

On June 28, 2012, we entered into a secured first mortgage loan agreement for $36.0 million with Montparnasse 56 USA. The loan is secured by the observation deck of the John Hancock building in Chicago, Illinois. This note bears interest at 10.65%, requires monthly interest payments and matures on June 28, 2032. The carrying value of this mortgage note receivable at June 30, 2012 was $36.0 million, including related accrued interest receivable of $32 thousand.

During the six months ended June 30, 2012, we entered into development agreements to develop seven entertainment properties including six theatre properties. The Company has agreed to finance $64.4 million in development costs for these properties, of which $5.2 million has been funded through June 30, 2012.

Additionally, during the six months ended June 30, 2012, we purchased four public charter school properties for a total initial investment of $4.1 million. Two of the properties are located in Salt Lake City and Hurricane, Utah and are leased to HighMark and the other two properties are located in Buckeye and Queen Creek, Arizona and are leased to Portfolio Charter Investments. As a part of these transactions, the Company has agreed to finance an additional $30.1 million in development costs for these properties of which $11.9 million has been funded through June 30, 2012.

During the six months ended June 30, 2012, we advanced $8.9 million under our secured mortgage loan agreement with Peak to provide for additional improvements made to Mount Snow. The carrying value of this mortgage note receivable at June 30, 2012 was $42.6 million. The maturity date for this mortgage loan agreement was extended to April 1, 2013 in accordance with a provision in the original loan agreement. Additionally, we advanced $2.4 million under another secured mortgage loan agreement with Peak to provide for additional improvements made to a ski resort in Bennington, New Hampshire.

During the second quarter of 2012, the Missouri Board of Education closed five public charter schools located in St. Louis, which are owned by us and operated by Imagine, due to academic underperformance. Additionally, two public charter schools owned by us and operated by Imagine located in Georgia as well as two located in Kansas City, Missouri

were also closed during the same period. We have assessed the impact of these closings on our investment in a direct financing lease with Imagine and have determined that no impairments exist and that these events are not expected to impact our ability to collect payments from Imagine under their master lease with us. This assessment considered the cross-default nature of the master lease, the ability of Imagine per the terms of the master lease to exchange the closed properties for properties that are acceptable to us (i.e. unoccupied schools for occupied schools that are acceptable from an underwriting basis), the cashflow that Imagine generates at the parent level and our $16.4 million letter of credit from Imagine. As of June 30, 2012, Imagine was current on all payments under the master lease of 27 public charter schools, and we do not anticipate any delay in future payments. Subsequent to June 30, 2012, per the terms of the master lease, we exchanged the two Kansas City, Missouri schools for one located in Pittsburgh, Pennsylvania and another in Land O' Lakes, Florida. We have also entered into an agreement with Imagine allowing it to substitute three additional public charter school properties that are acceptable to us on an underwriting basis for three of the remaining six properties that suffered charter revocations on or prior to the beginning of the upcoming 2012/2013 academic year.

On June 18, 2012, Concord Kiamesha Casino, LLC, an affiliate of Concord Associates, L.P., exercised the right to ground lease approximately 57 acres of former Concord Resort property from us, pursuant to agreements entered into as part of the June 18, 2010 settlement between the parties. The affiliate has the right to ground lease the parcel (with option to purchase) for a five year period with annual rent payments of $200 thousand due in advance. Additionally, as agreed in the June 18, 2010 settlement, Concord Associates, L.P. has the right to purchase our fee simple interest underlying the ground lease for $1.00 provided that construction of the harness racetrack and casino project is completed prior to the end of the ground lease term. The ground lease covers property which is not included in our separate agreements with Empire Resorts and has no effect on our development plans.

Concord Associates, L.P.'s separate option to acquire all of our property at the former Concord Resort expired unexercised on June 11, 2012. This option was recorded at fair value as noncontrolling interest at the time of settlement which was determined to be $27.8 million. During the three months ended June 30, 2012, we reduced the value of the noncontrolling interest to zero and recorded an adjustment to increase additional paid-in-capital by the same amount.

The following details our investment spending during the six months ended June 30, 2012 and 2011 (in thousands):
For the Six Months Ended June 30, 2012

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Investment in Mortgage Notes	Investment in Joint Ventures
Entertainment	71,117	13,094	5,016	16,346	36,000	661
Education	41,060	25,354	—	—	15,706	—
Recreation	31,425	—	—	20,014	11,411	—
Other	4,417	4,417	—	—	—	—
Total Investment Spending	148,019	42,865	5,016	36,360	63,117	661

For the Six Months Ended June 30, 2011

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Investment in Mortgage Notes	Investment in Joint Ventures or Direct Financing Lease
Entertainment	47,840	3,514	3,782	37,761	—	2,783
Education	16,642	14,529	—	—	—	2,113
Recreation	6,035	—	—	—	6,035	—

Total Investment Spending	70,517	18,043	3,782	37,761	6,035	4,896

42

The above amounts include $51 thousand and $30 thousand in capitalized payroll, $172 thousand and $209 thousand in capitalized interest and $0.7 million and $1.2 million in capitalized other general and administrative direct project costs for the six months ended June 30, 2012 and 2011, respectively. In addition, the Company had $1.3 million and $1.9 million of maintenance capital expenditures for the six months ended June 30, 2012 and 2011, respectively.

Vineyards and Wineries
During the three months ended March 31, 2012 or shortly thereafter, we entered into non-binding agreements to sell a portion of one of our vineyard properties as well as another winery, and began negotiations for the sale of three other vineyard and winery properties. As a result, we revised our estimated undiscounted cash flows associated with each of these asset groups, considering the shorter expected holding periods and determined that those estimated cash flows were not sufficient to recover the carrying values of these properties. We determined the estimated fair value of these assets to be $47.1 million using Level 3 inputs and recorded impairment charges totaling $12.8 million during the first quarter of 2012. Management estimated the fair values of these properties taking into account the various purchase offers, pending purchase agreements, input from an outside broker and previous appraisals. At June 30, 2012, one of the vineyard and winery properties with a carrying value of $3.9 million has been classified as held for sale in the accompanying consolidated balance sheet included in this Form 10-Q. Additionally, on May 25, 2012, we sold 197 plantable acres at our Buena Vista vineyard in Sonoma, California for $13.0 million and a gain on sale of $0.4 million was recognized during the three months ended June 30, 2012. The results of operations of both of these properties have been classified within discontinued operations. See note 15 to the consolidated financial statements in this 10-Q for further information.

Additionally, on June 1, 2012, in conjunction with the sale of the brands and related inventory assets by one of our tenants, Ascentia Wine Estates, LLC, related to two wineries and one vineyard property, we collected guaranteed rent deferral payments of $3.4 million and unguaranteed rent deferral payments of $0.4 million which had been previously reserved. The properties have been released by us to the buyers of the brands and inventory assets.

Results of Operations

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Rental revenue was $59.2 million for the three months ended June 30, 2012 compared to $56.0 million for the three months ended June 30, 2011. Rental revenue increased $3.2 million from the prior period, of which $2.8 million was related to acquisitions completed in 2012 and 2011, and $0.4 million was related to net rent increases on existing properties. Percentage rents of $0.1 million were recognized during both the three months ended June 30, 2012 and 2011, respectively. Straight-line rents of $0.5 million and $0.1 million were recognized during the three months ended June 30, 2012 and 2011, respectively.

During the three months ended June 30, 2012, we experienced a decrease of approximately 10.0% in rental rates on approximately 386,000 square feet with respect to significant lease renewals and new leases on existing properties. Additionally, we have funded or have agreed to fund a weighted average of $7.30 per square foot in tenant improvements and a weighted average of $0.81 per square foot in leasing commissions.
Tenant reimbursements totaled $4.4 million for the three months ended June 30, 2012 compared to $4.5 million for the three months ended June 30, 2011. These tenant reimbursements arise from the operations of our entertainment retail centers. The $0.1 million decrease is due to a decrease in tenant reimbursements at our retail centers as well the impact of a weaker Canadian dollar exchange rate for the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Mortgage and other financing income for the three months ended June 30, 2012 was $15.3 million compared to $13.7 million for the three months ended June 30, 2011. The $1.6 million increase is primarily due to increased real estate lending activities.

Our property operating expense totaled $5.2 million for the three months ended June 30, 2012 compared to $6.6 million for the three months ended June 30, 2011. These property operating expenses arise from the operations of our retail

centers and other specialty properties. Property operating expense decreased by $1.4 million due to a decrease in bad debt expense as well as decreases in property operating expenses at our retail centers and other specialty properties.

Other expense for the three months ended June 30, 2012 was $0.4 million compared to $0.7 million for the three months ended June 30, 2011. The $0.3 million decrease is primarily due to less loss recognized upon settlement of foreign currency forward and swap contracts.

Our general and administrative expense totaled $5.8 million for the three months ended June 30, 2012 compared to $5.1 million for the three months ended June 30, 2011. The increase of $0.7 million is primarily due to an increase in payroll related expenses and professional fees.

Our net interest expense increased by $1.2 million to $18.5 million for the three months ended June 30, 2012 from $17.3 million for the three months ended June 30, 2011. This increase resulted from an increase in average borrowings and was partially offset by a decreased weighted-average interest rate used to finance our real estate acquisitions and fund our mortgage notes receivable.

Impairment charges for the three months ended June 30, 2011 were $24.3 million and related to certain of our vineyard and winery properties. There were no impairment charges for the three months ended June 30, 2012.

Depreciation and amortization expense totaled $12.8 million for the three months ended June 30, 2012 compared to $11.8 million for the three months ended June 30, 2011. The $1.0 million increase resulted primarily from asset acquisitions completed in 2012 and 2011.

Equity in income from joint ventures totaled $0.3 million for the three months ended June 30, 2012 compared to $0.8 million for the three months ended June 30, 2011. The $0.5 million decrease is due to the January 1, 2012 conversion of $14.9 million of equity in Atlantic-EPR I, which earned a preferred return of 15%, into a loan from us at a rate of 9.5%. For further detail, see Note 5 to the consolidated financial statements included in this Form 10-Q. Additionally, the decrease resulted from a lease amendment on the underlying theatre property held by Atlantic-EPR I, which reduced the theatre square footage and annual rent.

Loss from discontinued operations totaled $0.1 million for the three months ended June 30, 2012 and included the operations of the Pope Valley vineyard and winery (Pope Valley) which was held for sale as of June 30, 2012 as well as the operations of a portion of our Buena Vista vineyard that was sold on May 25, 2012. Loss from discontinued operations totaled $9.4 million for the three months ended June 30, 2011 and related to the above mentioned properties (including a $2.8 million impairment charge), as well as the operations of the Toronto Dundas Square property which was sold on March 29, 2011, the operations of the Gary Farrell winery sold on April 28, 2011 (including a $1.0 million lease termination fee), and the EOS vineyard and winery sold on September 20, 2011 (including a $7.2 million impairment charge). For further detail, see Note 15 to the consolidated financial statements included in this Form 10-Q.

Gain on sale or acquisition of real estate from discontinued operations was $0.4 million for the three months ended June 30, 2012 and was due to the sale of a portion of our Buena Vista vineyard on May 25, 2012. There was no gain on sale or acquisition of real estate from discontinued operations for the three months ended June 30, 2011.

Preferred dividend requirements for the three months ended June 30, 2012 were $6.0 million compared to $7.6 million for the three months ended June 30, 2011. The $1.6 million decrease is due to the redemption of 3.2 million Series B preferred shares on August 31, 2011.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Rental revenue was $117.5 million for the six months ended June 30, 2012 compared to $111.4 million for the six months ended June 30, 2011. Rental revenue increased $6.1 million from the prior period, of which $5.5 million was related to acquisitions completed in 2012 and 2011 and $0.6 million was related to net rent increases on existing properties. Percentage rents of $0.6 million and $0.5 million were recognized during the six months ended June 30,

2012 and 2011, respectively. Straight-line rents of $0.9 million and $0.3 million were recognized during the six months ended June 30, 2012 and 2011, respectively.

During the six months ended June 30, 2012, we experienced a decrease of approximately 9.1% in rental rates on approximately 444,000 square feet with respect to significant lease renewals and new leases on existing properties. Additionally, we have funded or have agreed to fund a weighted average of $15.36 per square foot in tenant improvements and a weighted average of $0.71 per square foot in leasing commissions.
Tenant reimbursements totaled $9.2 million for both the six months ended June 30, 2012 and 2011. These tenant reimbursements arise from the operations of our entertainment retail centers. An increase in tenant reimbursements at our retail centers in Ontario, Canada was offset by a weaker Canadian dollar exchange rate and decreases in tenant reimbursements at our other retail centers.

Mortgage and other financing income for the six months ended June 30, 2012 was $30.0 million compared to $27.3 million for the six months ended June 30, 2011. The $2.7 million increase is primarily due to increased real estate lending activities.

Our property operating expense totaled $11.4 million for the six months ended June 30, 2012 compared to $12.8 million for the six months ended June 30, 2011. These property operating expenses arise from the operations of our retail centers and other specialty properties. Property operating expense decreased by $1.4 million due to a decrease in bad debt expense as well as decreases in property operating expenses at our retail centers and other specialty properties.

Other expense for the six months ended June 30, 2012 was $0.9 million compared to $1.2 million for the six months ended June 30, 2011. The $0.3 million decrease is primarily due to less loss recognized upon settlement of foreign currency forward and swap contracts.

Our general and administrative expense totaled $12.3 million for the six months ended June 30, 2012 compared to $10.6 million for the six months ended June 30, 2011. The increase of $1.7 million is primarily due to an increase in payroll related expenses, franchise taxes and professional fees.

Costs associated with loan refinancing or payoff, net were $5.3 million for the six months ended June 30, 2011 and related to the termination of our eight term loans outstanding under the vineyard and winery facility. In connection with the payment in full of these term loans, the related interest rate swaps were terminated at a cost of $4.6 million (including $1.1 million which is classified within discontinued operations) and deferred financing costs, net of accumulated amortization, of $1.8 million were written off. There were no costs associated with loan refinancing or payoff for the six months ended June 30, 2012 .

Our net interest expense increased by $0.6 million to $36.6 million for the six months ended June 30, 2012 from $36.0 million for the six months ended June 30, 2011. This increase resulted from an increase in average borrowings and was partially offset by a decreased weighted-average interest rate used to finance our real estate acquisitions and fund our mortgage notes receivable.

Transaction costs totaled $0.2 million for the six months ended June 30, 2012 compared to $1.3 million for the six months ended June 30, 2011. The decrease of $1.1 million is due to a decrease in write offs of costs associated with terminated transactions.

Impairment charges for the six months ended June 30, 2012 were $8.2 million compared to $24.3 million for the six months ended June 30, 2011 and related to certain of our vineyard and winery properties.

Depreciation and amortization expense totaled $25.1 million for the six months ended June 30, 2012 compared to $23.5 million for the six months ended June 30, 2011. The $1.6 million increase resulted primarily from asset acquisitions completed in 2012 and 2011.

Equity in income from joint ventures totaled $0.3 million for the six months ended June 30, 2012 compared to $1.6

million for the six months ended June 30, 2011. The $1.3 million decrease is due to the January 1, 2012 conversion of $14.9 million of equity in Atlantic-EPR I, which earned a preferred return of 15%, into a loan from us at a rate of 9.5%. For further detail, see Note 5 to the consolidated financial statements included in this Form 10-Q. Additionally, the decrease resulted from a lease amendment on the underlying theatre property held by Atlantic-EPR I, which reduced the theatre square footage and annual rent.

Loss from discontinued operations totaled $4.9 million for the six months ended June 30, 2012 and included the operations of Pope Valley which was held for sale as of June 30, 2012 (including a $0.8 million impairment charge) as well as the operations of a portion of our Buena Vista vineyard that was sold on May 25, 2012 (including a $3.8 million impairment charge). Loss from discontinued operations totaled $11.1 million for the six months ended June 30, 2011 and related to the above mentioned properties (including $4.6 million in impairment charges and $0.9 million in costs associated with loan refinancing or payoff), as well as the operations of the Toronto Dundas Square property which was sold on March 29, 2011, the operations of the Gary Farrell winery sold on April 28, 2011 (including a $1.0 million lease termination fee and $0.2 million in costs associated with loan refinancing or payoff), and the EOS vineyard and winery sold on September 20, 2011 (including a $7.2 million impairment charge). For further detail, see Note 15 to the consolidated financial statements included in this Form 10-Q for further details.

Gain on sale or acquisition of real estate from discontinued operations was $0.7 million for the six months ended June 30, 2012 and was due to the settlement of certain reserves established with the March 29, 2011 sale of Toronto Dundas Square ($0.3 million) as well as the sale of a portion of our Buena Vista vineyard on May 25, 2012 ($0.4 million). Gain on sale or acquisition of real estate from discontinued operations of $18.3 million for the six months ended June 30, 2011 was due to the March 29, 2011 sale of Toronto Dundas Square.

Preferred dividend requirements for the six months ended June 30, 2012 were $12.0 million compared to $15.1 million for the six months ended June 30, 2011. The $3.1 million decrease is due to the redemption of 3.2 million Series B preferred shares on August 31, 2011.

Liquidity and Capital Resources

Cash and cash equivalents were $12.7 million at June 30, 2012. In addition, we had restricted cash of $19.2 million at June 30, 2012. Of the restricted cash at June 30, 2012, $10.4 million relates to cash held for our borrowers' debt service reserves for mortgage notes receivable, $1.2 million relates to escrow balances required in connection with the sale of Toronto Dundas Square and the balance represents deposits required in connection with debt service, payment of real estate taxes and capital improvements.

Mortgage Debt, Credit Facilities and Term Loan
As of June 30, 2012, we had total debt outstanding of $1.3 billion of which $657.9 million was fixed rate mortgage debt secured by a portion of our rental properties and mortgage notes receivable, with a weighted average interest rate of approximately 6.1%.

At June 30, 2012, we had outstanding $250.0 million in aggregate principal amount in unsecured 7.750% senior notes due on July 15, 2020 that are guaranteed by certain of our subsidiaries. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of our debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of our total unencumbered assets to be not less than 150% of our outstanding unsecured debt.

At June 30, 2012, we had $112.0 million in debt outstanding under our $400.0 million unsecured revolving credit facility, with interest at a floating rate of LIBOR plus 160 basis points (1.84% at June 30, 2012). The facility has a

term expiring October 13, 2015 with a one year extension available at our option. The amount that we are able to borrow on our unsecured revolving credit facility is a function of the values and advance rates, as defined by the credit agreement, assigned to the assets included in the borrowing base less outstanding letters of credit and less other liabilities. As of June 30, 2012, our total availability under the unsecured revolving credit facility was $288.0 million.

Additionally, on January 5, 2012, we entered into a new $240.0 million five-year unsecured term loan facility. The loan matures on January 5, 2017. The facility is priced based on a grid related to our senior unsecured credit ratings, with pricing at closing of LIBOR plus 175 basis points. We also entered into interest rate swaps that effectively mitigate our risk to variable interest rates and provide a fixed interest stream (when cash flows from the debt and interest rate swaps are combined) at 2.66% for four years. The new unsecured facility also contains an “accordion” feature allowing it to be increased by up to an additional $110.0 million upon satisfaction of certain conditions.

Our unsecured revolving credit facility and our unsecured term loan facility contain substantially identical financial covenants that limit our levels of consolidated debt, secured debt, investment levels outside certain categories and dividend distributions, and require minimum coverage levels for fixed charges and unsecured debt service costs. Additionally, our unsecured revolving credit facility, unsecured term loan facility and our unsecured 7.75% senior notes contain cross-default provisions that go into effect if we default on any of our obligations for borrowed money or credit in an amount exceeding $25.0 million, unless such default has been waived or cured within a specified period of time. We were in compliance with all financial covenants at June 30, 2012.

Our principal investing activities are acquiring, developing and financing entertainment and entertainment-related properties, public charter schools, metropolitan ski areas and other destination recreational and specialty properties. These investing activities have generally been financed with mortgage debt and senior unsecured notes, as well as the proceeds from equity offerings. Our unsecured revolving credit facility is also used to finance the acquisition or development of properties, and to provide mortgage financing. We have and expect to continue to issue debt securities in public or private offerings. Continued growth of our rental property and mortgage financing portfolios will depend in part on our continued ability to access funds through additional borrowings and securities offerings.

Certain of our other long-term debt agreements contain customary restrictive covenants related to financial and operating performance as well as certain cross-default provisions. We were in compliance with all financial covenants at June 30, 2012.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring corporate operating expenses, debt service requirements and distributions to shareholders. We meet these requirements primarily through cash provided by operating activities. Net cash provided by operating activities was $103.4 million and $92.3 million for the six months ended June 30, 2012 and 2011, respectively. Net cash used by investing activities was $136.3 million for the six months ended June 30, 2012 and net cash provided by investing activities was $144.0 million for the six months ended June 30, 2011. Net cash provided by financing activities was $30.9 million and net cash used by financing activities was $232.7 million for the six months ended June 30, 2012 and 2011, respectively. We anticipate that our cash on hand, cash from operations, and funds available under our unsecured revolving credit facility will provide adequate liquidity to fund our operations, make interest and principal payments on our debt, and allow distributions to our shareholders and avoid corporate level federal income or excise tax in accordance with REIT Internal Revenue Code requirements.

Commitments

As of June 30, 2012, we have ten entertainment development projects under construction for which we have agreed to finance the development costs. At June 30, 2012, we have commitments to fund approximately $68.5 million of additional improvements which are expected to be funded in 2012. Development costs are advanced by us in periodic draws. If we determine that construction is not being completed in accordance with the terms of the development agreements, we can discontinue funding construction draws. We have agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

We have agreed to finance future development costs for seven of our education properties. At June 30, 2012, we have commitments to fund approximately $25.3 million of additional improvements for these properties which is expected to be funded in 2012. Development costs are advanced by us in periodic draws. If we determine that construction is not being completed in accordance with the terms of the development agreement, we can discontinue funding

construction draws. We have agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

We have provided a guarantee of the payment of certain economic development revenue bonds related to four theatres in Louisiana for which we earn a fee at an annual rates of 1.75% to 2.88% over the 30-year term of the bond. We have recorded $4.5 million as a deferred asset included in other assets and $4.5 million included in other liabilities in the accompanying consolidated balance sheet as of June 30, 2012 related to this guarantee. No amounts have been accrued as a loss contingency related to this guarantee because we have determined that payment by us is not probable.

We have certain commitments related to our mortgage note investments that we may be required to fund in the future. We are 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 June 30, 2012, we had six mortgage notes receivable with commitments totaling approximately $36.3 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

Liquidity Analysis

In analyzing our liquidity, we generally expect that our cash provided by operating activities will meet our normal recurring operating expenses, recurring debt service requirements and distributions to shareholders.

During 2012 and 2013, we have approximately $65.3 million and $98.5 million, respectively, of consolidated debt maturities. Our cash commitments, as described above, include additional commitments under various mortgage notes receivable totaling approximately $36.3 million. Of the $36.3 million of mortgage note receivable commitments, approximately $14.8 million is expected to be funded in 2012.

Our sources of liquidity as of June 30, 2012 to pay the above 2012 commitments include the remaining amount available under our unsecured revolving credit facility of approximately $288.0 million and unrestricted cash on hand of $12.7 million. Accordingly, while there can be no assurance, we expect that our sources of cash will exceed our existing commitments over the remainder of 2012.

We also believe that we will be able to repay, extend, refinance or otherwise settle our debt obligations for 2013 and thereafter as the debt comes due, and that we will be able to fund our remaining commitments as necessary. However, there can be no assurance that additional financing or capital will be available, or that terms will be acceptable or advantageous to us.

Our primary use of cash after paying operating expenses, debt service, distributions to shareholders and funding existing commitments is in growing our investment portfolio through the acquisition, development and financing of additional properties. We expect to finance these investments with borrowings under our unsecured revolving credit facility, as well as long-term debt and equity financing alternatives. The availability and terms of any such financing will depend upon market and other conditions. If we borrow the maximum amount available under our unsecured revolving credit facility, there can be no assurance that we will be able to obtain additional investment financing.

Off Balance Sheet Arrangements

At June 30, 2012, we had a 39.1% and 29.2% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, respectively, which are accounted for under the equity method of accounting. We do not anticipate any material impact on our liquidity as a result of commitments involving those joint ventures. As further discussed in Note 5 to the consolidated financial statements included in this Form 10-Q, on January 1, 2012, we converted a $14.9 million equity interest in Atlantic-EPR I to a secured first mortgage note receivable of the same

amount. Additionally, Atlantic EPR I entered into an agreement to develop a family entertainment venue at the property it owns for approximately $4.0 million which is expected to be funded through additional advances under the mortgage note. We recognized a loss of $28 thousand and income of $1,362 thousand during the six months ended June 30, 2012 and 2011, respectively, from our equity investment in the Atlantic-EPR I joint venture. We recognized income of $213 thousand and $182 thousand from our equity investment in the Atlantic-EPR II joint venture during the six months

ended June 30, 2012 and 2011, respectively. The Atlantic-EPR II joint venture has a mortgage note payable secured by a megaplex theatre that totals $12.0 million at June 30, 2012, and matures in September 2013. Condensed financial information for Atlantic-EPR I and Atlantic-EPR II joint ventures is included in Note 8 to the consolidated financial statements included in this Form 10-Q.

The partnership agreements for Atlantic-EPR I and Atlantic-EPR II allow the our partner, Atlantic of Hamburg, Germany ("Atlantic"), to exchange up to a maximum of 10% of its ownership interest per year in each of the joint ventures for our common shares or, at our discretion, the cash value of those shares as defined in each of the partnership agreements. During 2011, we paid Atlantic cash of $2.5 million and $258 thousand in exchange for additional ownership of 11.3% (a portion of which related to 2010) and 2.0% for Atlantic-EPR I and Atlantic-EPR II, respectively. During the six months ended June 30, 2012, we paid Atlantic cash of $688 thousand and $443 thousand in exchange for additional ownership of 3.0% and 3.5% 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 June 30, 2012 and December 31, 2011, we had invested $4.4 million and $4.2 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. We recognized income of $140 thousand and $11 thousand from our investment in these joint ventures for the six months ended June 30, 2012 and 2011, respectively.

Capital Structure and Coverage Ratios

We believe that our shareholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest, fixed charge and debt service coverage ratios. We expect to maintain our debt to gross assets ratio (i.e. total long-term debt to total assets plus accumulated depreciation) between 35% and 45%. However, the timing and size of our equity and debt offerings may cause us to temporarily operate over this threshold. At June 30, 2012, this ratio was 40%. Our long-term debt as a percentage of our total market capitalization at June 30, 2012 was 36%; however, we do not manage to a ratio based on total market capitalization due to the inherent variability that is driven by changes in the market price of our common shares. We calculate our total market capitalization of $3.5 billion by aggregating the following at June 30, 2012:

- Common shares outstanding of 46,837,348 multiplied by the last reported sales price of our common shares on the NYSE of $41.11 per share, or $1.9 billion;
- Aggregate liquidation value of our Series C convertible preferred shares of $135.0 million;
- Aggregate liquidation value of our Series D preferred shares of $115.0 million;
- Aggregate liquidation value of our Series E convertible preferred shares of $86.3 million; and
- Total long-term debt of $1.3 billion.

Our interest coverage ratio for the six months ended June 30, 2012 and 2011 was 3.7 times and 3.6 times, respectively. Interest coverage is calculated as the interest coverage amount (as calculated in the following table) divided by interest expense, gross (as calculated in the following table). We consider the interest coverage ratio to be an appropriate supplemental measure of a company's ability to meet its interest expense obligations and management believes it is useful to investors in this regard. Our calculation of the interest coverage ratio may be different from the calculation used by other companies, and therefore, comparability may be limited. This information should not be considered as an alternative to any U.S. generally accepted accounting principles ("GAAP") liquidity measures. The following table shows the calculation of our interest coverage ratios. Amounts below include the impact of discontinued operations, which are separately classified in the consolidated statements of income included in this Form 10-Q (unaudited, dollars in thousands):

	Six Months Ended June 30,	
	2012	2011
Net income	$58,208	$41,735
Interest expense, gross	36,831	36,388
Interest cost capitalized	(172)	(250)
Depreciation and amortization	25,350	26,011
Share-based compensation expense to management and trustees	2,998	2,841
Costs associated with loan refinancing or payoff	—	6,388
Straight-line rental revenue	(881)	(576)
Gain on sale or acquisition of real estate	(720)	(18,293)
Transaction costs	189	1,349
Impairment charges	12,843	36,056
Interest coverage amount	$134,646	$131,649
Interest expense, net	$36,587	$36,132
Interest income	72	6
Interest cost capitalized	172	250
Interest expense, gross	$36,831	$36,388
Interest coverage ratio	3.7	3.6

The interest coverage amount per the above table is a non-GAAP financial measure and should not be considered an alternative to any GAAP liquidity measures. It is most directly comparable to the GAAP liquidity measure, “Net cash provided by operating activities,” and is not directly comparable to the GAAP liquidity measures, “Net cash used in investing activities” and “Net cash provided by financing activities.” The interest coverage amount can be reconciled to “Net cash provided by operating activities” per the consolidated statements of cash flows included in this Form 10-Q as follows. Amounts below include the impact of discontinued operations, which are separately classified in the consolidated statements of cash flows included in this Form 10-Q (unaudited, dollars in thousands):

	Six Months Ended June 30,	
	2012	2011
Net cash provided by operating activities	$103,440	$92,330
Equity in income from joint ventures	324	1,555
Distributions from joint ventures	(638)	(1,304)
Amortization of deferred financing costs	(2,177)	(1,787)
Amortization of above market leases, net	—	(20)
Increase in mortgage notes accrued interest receivable	37	—
Decrease in restricted cash	(2,799)	(1,649)
Decrease in accounts receivable, net	(1,891)	(4,655)
Decrease in notes and accrued interest receivable	(8)	(48)
Increase in direct financing lease receivable	2,538	2,553
Increase in other assets	1,201	2,457
Decrease in accounts payable and accrued liabilities	1,163	526
Decrease (increase) in unearned rents	(2,511)	151
Straight-line rental revenue	(881)	(576)
Interest expense, gross	36,831	36,388
Interest cost capitalized	(172)	(250)
Costs associated with loan refinancing or payoff (cash portion)	—	4,629
Transaction costs	189	1,349
Interest coverage amount	$134,646	$131,649

Our fixed charge coverage ratio for the six months ended June 30, 2012 and 2011 was 2.8 times and 2.6 times, respectively. The fixed charge coverage ratio is calculated in exactly the same manner as the interest coverage ratio, except that preferred share dividends are also added to the denominator. We consider the fixed charge coverage ratio to be an appropriate supplemental measure of a company's ability to make its interest and preferred share dividend payments and management believes it is useful to investors in this regard. Our calculation of the fixed charge coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures. Amounts below include the impact of discontinued operations, which are separately classified in the consolidated statements of income included in this Form 10-Q. The following table shows the calculation of our fixed charge coverage ratios (unaudited, dollars in thousands):

	Six Months Ended June 30,	
	2012	2011
Interest coverage amount	$134,646	$131,649
Interest expense, gross	36,831	36,388
Preferred share dividends	12,003	15,103
Fixed charges	$48,834	$51,491
Fixed charge coverage ratio	2.8	2.6

Our debt service coverage ratio for both the six months ended June 30, 2012 and 2011 was 2.7 times. The debt service coverage ratio is calculated in exactly the same manner as the interest coverage ratio, except that recurring principal payments are also added to the denominator. We consider the debt service coverage ratio to be an appropriate supplemental measure of a company's ability to make its debt service payments and management believes it is useful to investors in this regard. Our calculation of the debt service coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures. Amounts below include the impact of discontinued operations, which are

51

separately classified in the consolidated statements of income included in this Form 10-Q. The following table shows the calculation of our debt service coverage ratios (unaudited, dollars in thousands):

	Six months ended June 30,	
	2012	2011
Interest coverage amount	$134,646	$131,649
Interest expense, gross	36,831	36,388
Recurring principal payments	12,664	12,273
Debt service	$49,495	$48,661
Debt service coverage ratio	2.7	2.7

52

Funds From Operations (FFO)

The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP and management provides FFO herein because it believes this information is useful to investors in this regard. FFO is a widely used measure of the operating performance of real estate companies and is provided here as a supplemental measure to GAAP net income available to common shareholders and earnings per share. Pursuant to the definition of FFO by the Board of Governors of NAREIT, we calculate FFO as net income available to common shareholders, computed in accordance with GAAP, excluding gains and losses from sales or acquisitions of depreciable operating properties and impairment losses of depreciable real estate, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships, joint ventures and other affiliates. Adjustments for unconsolidated partnerships, joint ventures and other affiliates are calculated to reflect FFO on the same basis. We have calculated FFO for all periods presented in accordance with this definition. FFO is a non-GAAP financial measure. FFO does not represent cash flows from operations as defined by GAAP and is not indicative that cash flows are adequate to fund all cash needs and is not to be considered an alternative to net income or any other GAAP measure as a measurement of the results of our operations or our cash flows or liquidity as defined by GAAP. It should also be noted that not all REITs calculate FFO the same way so comparisons with other REITs may not be meaningful.

The following table summarizes our FFO, including per share amounts, for the three and six months ended June 30, 2012 and 2011 (unaudited, in thousands, except per share information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss) available to common shareholders of Entertainment Properties Trust	$30,797	$(7,549)	$46,168	$26,630
Gain on sale or acquisition of real estate	(438)	—	(720)	(18,293)
Real estate depreciation and amortization	12,635	11,873	24,832	25,471
Allocated share of joint venture depreciation	144	112	286	221
Impairment charges	—	34,256	12,843	36,056
FFO available to common shareholders of Entertainment Properties Trust	$43,138	$38,692	$83,409	$70,085
FFO per common share attributable to Entertainment Properties Trust:				
Basic	$0.92	$0.83	$1.78	$1.50
Diluted	0.92	0.83	1.77	1.49
Shares used for computation (in thousands):				
Basic	46,826	46,648	46,751	46,576
Diluted	47,068	46,956	47,006	46,880
Other financial information:				
Dividends per common share	$0.75	$0.70	$1.50	$1.40

The additional 1.9 million common shares that would result from the conversion of our 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of our 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 months ended June 30, 2012 and 2011 because the effect is anti-dilutive.

53

Adjusted Funds From Operations (AFFO)

In addition to FFO, AFFO is presented by adding to FFO provision for loan losses, transaction costs, non-real estate depreciation and amortization, deferred financing fees amortization, costs associated with loan refinancing or payoff, net, share-based compensation expense to management and trustees, amortization of above market leases, net and preferred share redemption costs; and subtracting maintenance capital expenditures (including second generation tenant improvements and leasing commissions), straight-lined rental revenue, and the non-cash portion of mortgage and other financing income. AFFO is a widely used measure of the operating performance of real estate companies and is provided here as a supplemental measure to GAAP net income available to common shareholders and earnings per share, and management provides AFFO herein because it believes this information is useful to investors in this regard. AFFO is a non-GAAP financial measure and should not be considered an alternative to any GAAP liquidity measures. AFFO does not represent cash flows from operations as defined by GAAP and is not indicative that cash flows are adequate to fund all cash needs and is not to be considered an alternative to net income or any other GAAP measure as a measurement of the results of our operations or our cash flows or liquidity as defined by GAAP. It should also be noted that not all REITs calculate AFFO the same way so comparisons with other REITs may not be meaningful.

The following table summarizes our AFFO for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
FFO available to common shareholders of Entertainment Properties Trust	$43,138	$38,692	$83,409	$70,085
Adjustments:				
Transaction costs	31	76	189	1,349
Non-real estate depreciation and amortization	258	269	518	539
Deferred financing fees amortization	1,092	764	2,177	1,787
Costs associated with loan refinancing or payoff	—	—	—	6,388
Share-based compensation expense to management and trustees	1,534	1,474	2,998	2,841
Maintenance capital expenditures (1)	(1,066)	(600)	(1,420)	(2,202)
Straight-lined rental revenue	(493)	(58)	(881)	(576)
Non-cash portion of mortgage and other financing income	(1,284)	(1,350)	(2,541)	(2,608)
Amortization of above market leases, net	—	—	—	20
AFFO available to common shareholders of Entertainment Properties Trust	$43,210	$39,267	$84,449	$77,623

(1) Includes maintenance capital expenditures and certain second generation tenant improvements and leasing commissions.

Impact of Recently Issued Accounting Standards

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. The Company adopted ASU 2011-05 during first quarter of 2012 and it did not have a material effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, primarily relating to potential losses due to changes in interest rates and foreign currency exchange rates. We seek to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings whenever possible. We also have a $400.0 million unsecured revolving credit facility with $112.0 million outstanding as of June 30, 2012 and a $10.7 million bond, both of which bear interest at a floating rate. In addition, on January 5, 2012, we entered into a $240.0 million five year unsecured term loan facility which bears interest at a floating rate. As further described in Note 9 to the consolidated financial statements included in this Form 10-Q, this LIBOR based debt was converted with interest rate swaps to a fixed rate of 2.66% for four years.
We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings are subject to mortgages or contractual agreements which limit the amount of indebtedness we may incur. Accordingly, if we are unable to raise additional equity or borrow money due to these limitations, our ability to make additional real estate investments may be limited.
We are exposed to foreign currency risk against our functional currency, the US dollar, on our five Canadian properties. We financed the acquisition of four of our Canadian entertainment retail centers with a fixed rate mortgage loan from a Canadian lender in the original aggregate principal amount of approximately U.S. $97.0 million. The loan was made and is payable by us in CAD, and the rents received from tenants of the properties are payable in CAD.

As discussed above, we have partially mitigated the impact of foreign currency exchange risk on four of our Canadian properties by matching Canadian dollar debt financing with Canadian dollar rents. To further mitigate our foreign currency risk in future periods on these Canadian properties, during the second quarter of 2007, we entered into a cross currency swap with a notional value of $76.0 million CAD and $71.5 million U.S. The swap calls for monthly exchanges from January 2008 through February 2014 with us paying CAD based on an annual rate of 17.16% of the notional amount and receiving U.S. dollars based on an annual rate of 17.4% of the notional amount. There is no initial or final exchange of the notional amounts. The net effect of this swap 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. These foreign currency derivatives should hedge a significant portion of our expected CAD denominated FFO of these four Canadian properties through February 2014 as their impact on our reported FFO when settled should move in the opposite direction of the exchange rates utilized to translate revenues and expenses of these properties.
In order to also hedge our net investment on the four Canadian properties, we entered into a forward contract with a notional amount of $100.0 million CAD and a February 2014 settlement date which coincides with the maturity of our underlying mortgage on these four properties. The exchange rate of this forward contract is approximately $1.04 CAD per U.S. dollar. This forward contract should hedge a significant portion of our CAD denominated net investment in these four centers through February 2014 as the impact on accumulated other comprehensive income from marking the derivative to market should move in the opposite direction of the translation adjustment on the net assets of our four Canadian properties.

Additionally, we have entered into foreign currency forward agreements to hedge the currency fluctuations related to the monthly cash flows of our Canadian properties. These foreign currency forwards settled or settle at the end of each month from February to December 2012 and lock in exchange rates of $1.00 CAD to $1.01 CAD per U.S. dollar on approximately $500 thousand monthly CAD denominated cash flows.
See Note 11 to the consolidated financial statements included in this Form 10-Q for additional information on our derivative financial instruments and hedging activities.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the

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55

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of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter of the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On June 7, 2011, affiliates of Louis Cappelli, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC, filed a complaint with the Supreme Court of the State of New York, County of Sullivan, against a subsidiary of the Company seeking (i) a declaratory judgment on certain of the subsidiary's obligations under a previously disclosed settlement agreement involving these entities, (ii) an order that the Company subsidiary execute the golf course lease and the “Racino Parcel” lease subject to the settlement agreement, and (iii) an extension of the restrictive covenant against ownership or operation of a casino on the Concord resort property under the settlement agreement, which covenant was set to expire on December 31, 2011. On October 20, 2011, Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC filed a complaint with the Supreme Court of the State of New York, County of Westchester against the Company and certain of its subsidiaries alleging breach of contract and breach of the duty of good faith and fair dealing with respect to a casino development agreement relating to a planned casino and resort development in Sullivan County, New York. Plaintiffs are seeking specific performance with respect to such agreement and money damages of $800.0 million, plus interest and attorneys' fees. On March 7, 2012, Concord Associates, L.P. and seven other companies affiliated with Mr. Cappelli and Concord Associates, L.P. filed a new complaint against the Company and certain of its subsidiaries, as well as Empire Resorts, Inc. and its subsidiary Monticiello Raceway Management, Inc., in the United States District Court for the Southern District of New York. On June 25, 2012, an amended complaint was served against the same parties as well as Kien Huat Realty III Limited and Genting New York, LLC (Genting Parties). The amended complaint alleges unlawful restraint of trade, conspiracy to monopolize, unlawful monopolization, against the Company, the Empire Resorts parties and the Genting Parties as well as tortious interference against the Empire Resorts parties and the Genting Parties, in relation to a proposed development transaction on the same Sullivan County, New York resort property. Plaintiffs seek damages of $1.5 billion, plus interest and attorneys' fees. The Company intends to vigorously defend the claims asserted against the

Company and certain of its subsidiaries by the Concord entities for which it believes it has meritorious defenses, but it is too early to assess the outcome.

56

Item 1A. Risk Factors

Public charter schools are operated pursuant to charters granted by various state or other regulatory authorities and are dependent upon funding from such regulatory authorities. We could be adversely affected by a public charter school's failure to comply with its charter, non-renewal of a charter upon expiration or by its reduction or loss of funding.

Our public charter school properties operate pursuant to charters granted by various state or other regulatory authorities, which are generally shorter than our lease terms, and most of the schools have undergone or expect to undergo compliance audits or reviews by such regulatory authorities. Such audits and reviews examine the financial as well as the academic performance of the school. Adverse audit or review findings could result in non-renewal or revocation of a charter school's charter, or in some cases, a reduction in the amount of state funding, repayment of previously received state funding or other economic sanctions. Our public charter school tenants are also dependent upon funding from various state or other regulatory authorities, which are currently experiencing budgetary constraints, and any reduction or loss of such funding could adversely affect a public charter school's ability to comply with its charter and/or pay its obligations.

Imagine, an operator of public charter schools, is a lessee of a substantial number of our public charter school properties. Recently, some of the Company's public charter school properties operated by Imagine have been subject to compliance audits or reviews that resulted in probationary actions and, in nine cases, charter revocation. We are currently in the process of resolving these issues with Imagine; however, there can be no assurances that any such solutions will satisfy either the respective regulatory body or the Company, and could result in the Company pursuing its remedies in the lease.

We believe that we have taken actions to mitigate, or have otherwise accounted for, some of the risks associated with our public charter school properties. For instance, Imagine is required to maintain irrevocable letters of credit to secure a portion of their annual lease payment owed to us under the master lease agreement. Subject to our approval and certain other terms and conditions, the master lease agreement also allows Imagine to repurchase from us the public charter school properties that are causing technical defaults and, in substitution for such properties, sell to us public charter school properties that would otherwise comply with the lease agreement. In fact, Imagine recently exercised this right with respect to two of the nine properties that suffered a charter revocation and such repurchases have been completed. In addition, one school has been sub-leased by Imagine to the St. Louis, Missouri Public School District. With respect to other non-performing properties, however, there is no guarantee that acceptable schools will be available for substitutions or that such substitutions will be completed. In addition, while governing authorities may approve substitute operators for failed public charter schools to ensure continuity for students, we cannot predict when or whether applicable governing authorities would approve such substitute operators, nor can we predict whether we could reach lease agreements with such substitute tenants on acceptable terms.

We previously made a significant investment in a planned casino and resort development, which is now the subject of ongoing litigation. We cannot predict the duration or outcome of this litigation. In the event of prolonged litigation or an unfavorable outcome, or other factors outside of the litigation, the casino project and resort development may be indefinitely delayed or canceled, which, individually or together with an unfavorable outcome in the litigation, could have a material adverse effect on the casino project and resort development and/or our financial condition and results of operations.

We previously reached a settlement agreement with the developer of the planned casino and resort project in Sullivan County, New York and certain related affiliates, pursuant to which we acquired certain land at the project. Entities affiliated with the developer of the casino property subsequently commenced litigation against us and certain of our subsidiaries regarding matters addressed by the settlement agreement. In addition, entities affiliated with the developer

commenced additional litigation against us and certain of our subsidiaries relating to our potential relationship with certain parties, including Empire Resorts, Inc. and one of its subsidiaries. We believe we have meritorious defenses to this litigation and intend to defend it vigorously. There can be no assurances, however, as to the duration or ultimate

outcome of this litigation, nor can there be any assurances as to the costs we may incur in defending against and/or resolving this litigation. In the event of prolonged litigation or an unfavorable outcome, or simply as a result of economic, regulatory or other conditions, the planned casino and resort development may be indefinitely delayed or canceled. There can be no assurance that such an indefinite delay or cancellation would not have a material adverse effect on our investment, which could cause us to record an impairment charge with respect to our interest in such property, and which could result in a material adverse effect on our financial condition and results of operations. In addition, if the outcome of the litigation is unfavorable to us, it could result in a material adverse effect on our financial condition and results of operations.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 through April 30, 2012 common stock	—		$—	—	$—
May 1 through May 31, 2012 common stock	215	[1]	42.35	—	—
June 1 through June 30, 2012 common stock	—		—	—	—
Total	215		$42.35	—	$—

[1] The repurchase of equity securities during May 2012 was completed in conjunction with an employee stock option exercise. This repurchase was not made pursuant to a publicly announced plan or program.

Item 3. Defaults Upon Senior Securities

There were no reportable events during the quarter ended June 30, 2012.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There were no reportable events during the quarter ended June 30, 2012.

Item 6. Exhibits

12.1*	Computation of Ratio of Earnings to Fixed Charges is attached hereto as Exhibit 12.1
12.2*	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Distributions is attached hereto as Exhibit 12.2
31.1*	Certification of David M. Brain, Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Mark A. Peterson, Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

SIGNATURES

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

			ENTERTAINMENT PROPERTIES TRUST
Dated:	July 26, 2012	By	/s/ David M. Brain David M. Brain, President and Chief Executive Officer (Principal Executive Officer)
Dated:	July 26, 2012	By	/s/ Mark A. Peterson Mark A. Peterson, Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Chief Accounting Officer)

Exhibit Index

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* Filed herewith.