ENTERTAINMENT PROPERTIES TRUST
Form 10-Q
October 31, 2012

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

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission file number: 001-13561

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

At October 30, 2012, there were 46,842,184 common shares outstanding.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

- General international, national, regional and local business and economic conditions;
- Continuing volatility in the financial markets;
- Adverse changes in our credit ratings;
- Fluctuations in interest rates;
- The duration or outcome of litigation, or other factors outside of the litigation, relating to our significant investment in a planned casino and resort development which may cause the development to be indefinitely delayed or cancelled;
- The failure of a bank to fund a request by us to borrow money;
- Failure of banks in which we have deposited funds;
- Defaults in the performance of lease terms by our tenants;
- Defaults by our customers and counterparties on their obligations owed to us;
- A borrower's bankruptcy or default;
- The obsolescence of older multiplex theatres owned by some of our tenants or by any overbuilding of megaplex theatres in their markets;
- Our ability to renew maturing leases with theatre tenants on terms comparable to prior leases and/or our ability to lease any re-claimed space from some of our larger theatres at economically favorable terms;
- Risks of operating in the entertainment industry;
- Our ability to compete effectively;
- A single tenant represents a substantial portion of our lease revenue;
- A single tenant leases or is the mortgagor of all our investments related to metropolitan ski areas and a single tenant leases a significant number of our public charter school properties;
- The ability of our public charter school tenants to comply with their charters and continue to receive funding from state or other regulatory authorities, the approval by applicable governing authorities of substitute operators to assume control of any failed public charter schools and our ability to negotiate the terms of new leases with such substitute tenants on acceptable terms, and our ability to complete collateral substitutions as applicable;
- Risks associated with use of leverage to acquire properties;
- Financing arrangements that require lump-sum payments;
- Our ability to raise capital;
- Covenants in our debt instruments that limit our ability to take certain actions;
- Risks of acquiring and developing properties and real estate companies;
- The lack of diversification of our investment portfolio;

- Our continued qualification as a real estate investment trust for U.S federal income tax purposes ("REIT");
- The ability of our subsidiaries to satisfy their obligations;
- Financing arrangements that expose us to funding or purchase risks;
- We have a limited number of employees and the loss of personnel could harm operations;
- Fluctuations in the value of real estate income and investments;
- Risks relating to real estate ownership, leasing and development, for example local conditions such as an oversupply of space or a reduction in demand for real estate in the area, competition from other available space, whether tenants and users such as customers of our tenants consider a property attractive, changes in real estate taxes and other expenses, changes in market rental rates, the timing and costs associated with property improvements and rentals, changes in taxation or zoning laws or other governmental regulation, whether we are able to pass some or all of any increased operating costs through to tenants, and how well we manage our properties;
- Our ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
- Risks involved in joint ventures;
- Risks in leasing multi-tenant properties;
- A failure to comply with the Americans with Disabilities Act or other laws;
- Risks of environmental liability;
- Our real estate investments are relatively illiquid;
- We own assets in foreign countries;
- Risks associated with owning, operating or financing properties for which the tenant's, mortgagor's or our operations may be impacted by weather conditions and climate change;
- Risks associated with the ownership of vineyards and wineries;
- Risks associated with security breaches and other disruptions;
- Our ability to pay distributions in cash or at current rates;
- Fluctuations in the market prices for our shares;
- Certain limits on changes in control imposed under law and by our Declaration of Trust and Bylaws;
- Policy changes obtained without the approval of our shareholders;
- Equity issuances could dilute the value of our shares;
- Risks associated with changes in the Canadian exchange rate; and
- Changes in laws and regulations, including tax laws and regulations.

Our forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A. "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the Securities and Exchange Commission (“SEC”) on July 27, 2012 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.

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

TABLE OF CONTENTS

			Page
PART I			1
	Item 1.	Financial Statements	1
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	41
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	59
	Item 4.	Controls and Procedures	60
PART II			60
	Item 1.	Legal Proceedings	60
	Item 1A.	Risk Factors	61
	Item 2.	Unregistered Sale of Equity Securities and Use of Proceeds	61
	Item 3.	Defaults Upon Senior Securities	61
	Item 4.	Mine Safety Disclosures	61
	Item 5.	Other Information	61
	Item 6.	Exhibits	62

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

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Rental properties, net of accumulated depreciation of $369,854 and $335,116 at September 30, 2012 and December 31, 2011, respectively	$1,892,190	$1,819,176
Rental properties held for sale, net	3,895	4,696
Land held for development	191,442	184,457
Property under development	30,486	22,761
Mortgage notes and related accrued interest receivable, net	411,755	325,097
Investment in a direct financing lease, net	232,855	233,619
Investment in joint ventures	11,399	25,053
Cash and cash equivalents	25,007	14,625
Restricted cash	26,138	19,312
Intangible assets, net	3,667	4,485
Deferred financing costs, net	20,674	18,527
Accounts receivable, net	35,704	35,005
Notes and related accrued interest receivable, net	4,947	5,015
Other assets	25,213	22,167
Total assets	$2,915,372	$2,733,995
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	$54,086	$36,036
Common dividends payable	35,131	32,709
Preferred dividends payable	6,002	6,002
Unearned rents and interest	14,181	6,850
Long-term debt	1,339,118	1,154,295
Total liabilities	1,448,518	1,235,892
Equity:		
Common Shares, $.01 par value; 75,000,000 shares authorized; and 48,286,473 and 48,062,593 shares issued at September 30, 2012 and December 31, 2011, respectively	482	480
Preferred Shares, $.01 par value; 25,000,000 shares authorized:		
5,400,000 Series C convertible shares issued at September 30, 2012 and December 31, 2011; liquidation preference of $135,000,000	54	54
4,600,000 Series D shares issued at September 30, 2012 and December 31, 2011; liquidation preference of $115,000,000	46	46
3,450,000 Series E convertible shares issued at September 30, 2012 and December 31, 2011; liquidation preference of $86,250,000	35	35
Additional paid-in-capital	1,754,285	1,719,066
Treasury shares at cost: 1,445,434 and 1,335,879 common shares at September 30, 2012 and December 31, 2011, respectively	(49,689)	(44,834)
Accumulated other comprehensive income	20,629	23,463
Distributions in excess of net income	(259,318)	(228,261)
Entertainment Properties Trust shareholders' equity	1,466,524	1,470,049
Noncontrolling interests	330	28,054

Equity	$1,466,854	$1,498,103
Total liabilities and equity	$2,915,372	$2,733,995

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental revenue	$61,049	$56,849	$178,543	$168,255
Tenant reimbursements	4,608	4,419	13,794	13,596
Other income	203	165	336	320
Mortgage and other financing income	16,976	14,541	46,952	41,803
Total revenue	82,836	75,974	239,625	223,974
Property operating expense	5,939	5,955	17,358	18,724
Other expense	526	597	1,442	1,754
General and administrative expense	5,486	4,555	17,774	15,127
Costs associated with loan refinancing or payoff	477	—	477	5,339
Interest expense, net	19,994	17,911	56,594	53,943
Transaction costs	184	145	373	1,494
Impairment charges	3,086	—	11,281	24,298
Depreciation and amortization	13,276	11,861	38,349	35,316
Income before equity in income from joint ventures and discontinued operations	33,868	34,950	95,977	67,979
Equity in income from joint ventures	342	676	666	2,231
Income from continuing operations	$34,210	$35,626	$96,643	$70,210
Discontinued operations:				
Income (loss) from discontinued operations	(35)	(79)	(332)	538
Impairment charges	—	—	(4,648)	(11,758)
Gain on sale or acquisition of real estate	—	16	720	18,309
Net income	34,175	35,563	92,383	77,299
Add: Net income attributable to noncontrolling interests	(24)	(11)	(61)	(13)
Net income attributable to Entertainment Properties Trust	34,151	35,552	92,322	77,286
Preferred dividend requirements	(6,002)	(7,034)	(18,005)	(22,138)
Series B preferred share redemption costs	—	(2,769)	—	(2,769)
Net income available to common shareholders of Entertainment Properties Trust	$28,149	$25,749	$74,317	$52,379
Per share data attributable to Entertainment Properties Trust common shareholders:				
Basic earnings per share data:				
Income from continuing operations	$0.60	$0.55	$1.68	$0.97
Income (loss) from discontinued operations	—	—	(0.09)	0.15
Net income available to common shareholders	$0.60	$0.55	$1.59	$1.12
Diluted earnings per share data:				
Income from continuing operations	$0.60	$0.55	$1.67	$0.97
Income (loss) from discontinued operations	—	—	(0.09)	0.15
Net income available to common shareholders	$0.60	$0.55	$1.58	$1.12
Shares used for computation (in thousands):				
Basic	46,840	46,680	46,781	46,611
Diluted	47,090	46,918	47,035	46,874

See accompanying notes to consolidated financial statements.

2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$34,175	$35,563	$92,383	$77,299
Other comprehensive income (loss):				
Foreign currency translation adjustment	4,979	(12,237)	4,855	(2,679)
Change in unrealized loss on derivatives	(5,030)	9,032	(7,689)	5,186
Comprehensive income	34,124	32,358	89,549	79,806
Comprehensive income attributable to the noncontrolling interests	(24)	(11)	(61)	(13)
Comprehensive income attributable to Entertainment Properties Trust	$34,100	$32,347	$89,488	$79,793

See accompanying notes to consolidated financial statements.

ENTERTAINMENT PROPERTIES TRUST
Consolidated Statements of Changes in Equity
Nine Months Ended September 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	—	—	—	—	3,334	—	—	—	—	3,334
Share option expense	—	—	—	—	709	—	—	—	—	709
Foreign currency translation adjustment	—	—	—	—	—	—	4,855	—	—	4,855
Change in unrealized gain/loss on derivatives	—	—	—	—	—	—	(7,689)	—	—	(7,689)
Net income	—	—	—	—	—	—	—	92,322	61	92,383
Purchase of 73,959	—	—	—	—	—	(3,232)	—	—	—	(3,232)

common shares for treasury										
Issuances of common shares	6,317	—	—	—	280	—	—	—	—	280
Stock option exercises, net	58,543	1	—	—	1,132	(1,618)	—	—	—	(485)
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(123,379)	—	(123,379)
Forfeiture of noncontrolling interest	—	—	—	—	27,785	—	—	—	(27,785)	—
Balance at September 30, 2012	48,286,473	$482	13,450,000	$135	$1,754,285	$(49,689)	$20,629	$(259,318)	$330	$1,466,854

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2012	2011
Operating activities:		
Net income	$92,383	$77,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash impairment charges	11,281	24,298
Loss (income) from discontinued operations	4,260	(7,089)
Costs associated with loan refinancing or payoff (non-cash portion)	439	1,759
Equity in income from joint ventures	(666)	(2,231)
Distributions from joint ventures	827	2,176
Depreciation and amortization	38,349	35,316
Amortization of deferred financing costs	3,224	2,821
Share-based compensation expense to management and Trustees	4,416	4,211
Decrease (increase) in restricted cash	(2,695)	1,225
Increase in mortgage notes accrued interest receivable	(828)	(410)
Increase in accounts receivable, net	(1,820)	(58)
Decrease in notes receivable and accrued interest receivable	68	72
Increase in direct financing lease receivable	(3,730)	(3,795)
Increase in other assets	(2,063)	(1,797)
Decrease in accounts payable and accrued liabilities	(2,504)	(1,434)
Increase (decrease) in unearned rents and interest	2,478	(124)
Net operating cash provided by continuing operations	143,419	132,239
Net operating cash provided by discontinued operations	1,984	3,212
Net cash provided by operating activities	145,403	135,451
Investing activities:		
Acquisition of rental properties and other assets	(42,094)	(46,427)
Proceeds from sale of real estate	—	1,700
Investment in unconsolidated joint ventures	(1,131)	(3,245)
Investment in mortgage notes receivable	(71,908)	(9,390)
Investment in a direct financing lease, net	—	(2,118)
Proceeds from sale of investment in a direct financing lease, net	4,494	—
Additions to properties under development	(88,965)	(44,230)
Net cash used by investing activities of continuing operations	(199,604)	(103,710)
Net cash used by other investing activities of discontinued operations	—	(58)
Net proceeds from sale of real estate from discontinued operations	12,969	224,912
Net cash provided (used) by investing activities	(186,635)	121,144
Financing activities:		
Proceeds from long-term debt facilities	798,000	328,000
Principal payments on long-term debt	(616,400)	(379,428)
Deferred financing fees paid	(5,797)	(1,002)
Net proceeds from issuance of common shares	179	195
Redemption of preferred shares	—	(80,030)
Impact of stock option exercises, net	(485)	966
Purchase of common shares for treasury	(3,232)	(3,070)
Dividends paid to shareholders	(120,856)	(119,164)

Net cash provided (used) by financing activities	51,409	(253,533)
Effect of exchange rate changes on cash	205	(536)
Net increase in cash and cash equivalents	10,382	2,526
Cash and cash equivalents at beginning of the period	14,625	11,776
Cash and cash equivalents at end of the period	$25,007	$14,302

Supplemental information continued on next page.

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

	Nine Months Ended September 30,	
	2012	2011
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	$75,172	$35,100
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	$56,566	$57,652
Cash received during the year for income taxes	$(521)	$(212)

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 typically anchored by an entertainment component such as a megaplex theatre and containing other entertainment-related or retail properties), public charter schools 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 nine month period ended September 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 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 creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. When evaluating customer creditworthiness, management reviews the periodic financial statements for significant tenants and specifically evaluates the strength and material changes in net operating income, coverage ratios, leverage and other factors to assess the tenant's credit quality. In addition, when customers are in bankruptcy, the Company makes estimates of the expected recovery of pre-petition administrative and damage claims. These estimates have a direct impact on the Company's net income.

Revenue Recognition
Rents that are fixed and determinable are recognized on a straight-line basis over the minimum terms of the leases. Base rent escalation on leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. In addition, most of the Company's tenants are subject to additional rents if gross revenues of the properties exceed certain thresholds defined in the lease agreements (percentage rents). Percentage rents as well as participating interest for those mortgage agreements that contain similar such clauses are recognized at the time when specific triggering events occur as provided by the lease or mortgage agreements. Rental revenue included percentage rents of $1.1 million and $1.0 million for the nine months ended September 30, 2012 and 2011, respectively. Mortgage and other financing income included participating interest income of $0.8 million and $0.4 million for the nine months ended September 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 $105 thousand were recognized during the nine months ended September 30, 2012. Termination fees of $1.1 million were recognized during the nine months ended September 30, 2011 of which $1.0 million has been classified within discontinued operations. See Note 15 for further details.

Direct financing lease income is recognized on the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent management's initial estimates of fair value of the leased assets at the expiration of the lease, not to exceed original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real estate values. The Company evaluates on an annual basis (or more frequently if necessary) the collectability of its 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 (31%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at September 30, 2012 as a result of a series of sale leaseback transactions pertaining to AMC megaplex theatres. A substantial portion of the Company’s total revenues (approximately $73.1 million or 31% and $79.2 million or 35%, for the nine months ended September 30, 2012 and 2011, respectively) result from the revenue from AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC’s obligations under the leases. During July of 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. 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 $154.3 million and $360.2 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. In addition, AMCE had net earnings of $18.2 million for the thirteen weeks ended June 28, 2012. AMCE has publicly held debt and the foregoing financial information was reported in its consolidated financial information which is publicly available. On August 30, 2012, Dalian Wanda Group Co., Ltd. (Wanda) announced that it completed its acquisition of AMC Entertainment Holdings, Inc., the parent of AMCE (AMCE Holdings), in a transaction valued at $2.6 billion. Upon completion of the acquisition, AMCE Holdings became a wholly-owned subsidiary of Wanda.

For the nine months ended September 30, 2012 and 2011, approximately $32.0 million or 13%, and $32.0 million or 14%, respectively, of total revenue was derived from the Company's four entertainment retail centers in Ontario, Canada. The Company's wholly owned subsidiaries that hold the four Canadian entertainment retail centers and third-party debt represent approximately $148.7 million or 10% and $144.6 million or 10% of the Company's net assets as of September 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 $4.4 million and $4.2 million for the nine months ended September 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 nine months ended September 30, 2012 and 2011 was $709 thousand and $562 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 nine months ended September 30, 2012 and 2011, respectively, dividend yield of 6.3% to 6.7% for the nine months ended September 30, 2012 and 6.4% for the nine months ended September 30, 2011, volatility factors in the expected market price of the Company’s common shares of 51.3% to 51.4% for the nine months ended September 30, 2012 and 39.8% for the nine months ended September 30, 2011, 0.25% expected forfeiture rate for the nine months ended September 30, 2012, no expected forfeitures for the nine months ended September 30, 2011, an expected life of approximately six years for the nine months ended September 30, 2012 and an expected life of approximately eight years for the nine months ended September 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 $3.3 million and $3.2 million for the nine months ended September 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 $372 thousand, and $367 thousand for the nine months ended September 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 September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Buildings and improvements	$1,721,187	$1,602,676
Furniture, fixtures & equipment	43,723	54,737
Land	497,134	496,879
	2,262,044	2,154,292
Accumulated depreciation	(369,854)	(335,116)
Total	$1,892,190	$1,819,176

Depreciation expense on rental properties was $36.1 million and $33.1 million for the nine months ended September 30, 2012 and 2011, respectively.

4. Impairment Charges

During the three months ended March 31, 2012, the Company began negotiations on or entered into non-binding agreements to sell five 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 September 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.

During the three months ended September 30, 2012, the Company began negotiations on or entered into non-binding agreements to sell the remaining assets at one of its unleased vineyard and winery properties to two separate buyers. As a result, in the third quarter of 2012, the Company revised its estimated undiscounted cash flows associated with this asset group, considering the shorter expected holding period, and determined that those estimated cash flows were not sufficient to recover the carrying values of these assets. The Company determined the estimated fair value of these assets (included in the Other segment) to be $20.8 million using Level 2 inputs and recorded impairment charges totaling $3.1 million during the third quarter of 2012. Management estimated the fair values of these assets taking into account the pending purchase agreements.

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. Atlantic-EPR I entered into an agreement to develop a family entertainment venue at the secured property for approximately $4.0 million which is being funded through additional advances under the mortgage note. The carrying value of the mortgage note at September 30, 2012 was $16.3 million.

On February 23, 2012, the Company acquired two TopGolf golf entertainment 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. Additionally, on September 21, 2012, the Company acquired another TopGolf golf entertainment facility for a purchase price of $7.3 million. As a part of this transaction, the Company has agreed to finance $4.7 million in development costs for this property. The facility is located in Houston, Texas and is 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 $11.5 million in construction costs for these two facilities, of which $7.8 million has been funded through September 30, 2012. The facilities are leased to Latitude Global pursuant to long-term triple-net leases.

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 being developed by HighMark School Development (HighMark) 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 note has an effective interest rate of approximately 9.3%, which is net of a 2% servicer fee to HighMark. The carrying value of the mortgage note at September 30, 2012 was $18.5 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 September 30, 2012 was $36.0 million, including related accrued interest receivable of $32 thousand.

On July 31, 2012, the Company entered into a development agreement to develop a public charter school property in Tarboro, North Carolina that is leased to HighMark under a long-term triple-net lease. The Company has agreed to finance $5.4 million in development costs for this property, of which $3.6 million has been funded through September 30, 2012.

On September 26, 2012, the Company entered into a secured first mortgage loan agreement for $3.4 million with UME Preparatory Academy. The loan is secured by approximately 28 acres of land located in Dallas, Texas, which is expected to be developed by HighMark into a public charter school. The note bears interest beginning at 10.25% with increases of 0.5% every five years, requires monthly interest payments and matures on June 30, 2033. The note is expected to have an effective interest rate of approximately 10.3% upon completion of development, which is net of a 2% servicer fee to HighMark. The carrying value of the mortgage note at September 30, 2012 was $1.0 million.

During the three months ended September 30, 2012, the Company completed development of five public charter school properties. The total development cost (including land and building) was approximately $46.9 million. Three of the properties are leased under long-term triple-net leases to HighMark and are located in Salt Lake City and Hurricane, Utah and Phoenix, Arizona. The remaining two properties are leased under long-term triple-net leases to Portfolio Charter Investments and are located in Buckeye and Queen Creek, Arizona. Additionally, the Company funded $5.6 million for expansions at two of its existing public charter school properties.

During the nine months ended September 30, 2012, the Company entered into development agreements to develop or redevelop eleven entertainment properties including seven new theatre development projects and four theatre redevelopment projects. The Company has agreed to finance $73.8 million in development costs for these properties, of which $6.0 million has been funded through September 30, 2012. Additionally, the Company completed development or redevelopment of four entertainment properties for a total investment of $13.4 million.

During the nine months ended September 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 September 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 $4.6 million under two of its secured mortgage loan agreements with Peak to provide for additional improvements made to three ski properties.

During the nine months ended September 30, 2012, the Company has expended $7.0 million in pursuit of the necessary environmental and land use approvals and permits for the proposed casino anchored development in Sullivan County, New York.

6. Accounts Receivable, Net

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

	September 30, 2012	December 31, 2011
Receivable from tenants	$6,901	$6,874
Receivable from non-tenants	1,168	1,265
Receivable from Canada Revenue Agency	602	1,099
Straight-line rent receivable	30,071	26,499
Deferred rent receivable [1]	—	4,420
Allowance for doubtful accounts	(3,038)	(5,152)
Total	$35,704	$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 26 public charter school properties as of September 30, 2012 and 27 public charter school properties as of December 31, 2011, with affiliates of Imagine Schools, Inc. (Imagine). Investment in a direct financing lease, net represents estimated unguaranteed residual values of leased assets and net unpaid rentals, less related deferred income. The following table summarizes the carrying amounts of investment in a direct financing lease, net as of September 30, 2012 and December 31, 2011(in thousands):

	September 30, 2012	December 31, 2011
Total minimum lease payments receivable	$654,406	$683,653
Estimated unguaranteed residual value of leased assets	211,944	215,987
Less deferred income [1]	(633,495)	(666,021)
Investment in a direct financing lease, net	$232,855	$233,619

[1] Deferred income is net of $1.7 million and $1.8 million of initial direct costs at September 30, 2012 and December 31, 2011, respectively.

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

On July 13, 2012, per the terms of the master lease of public charter schools with Imagine, the Company exchanged two Kansas City, Missouri schools for one located in Pittsburgh, Pennsylvania and another in Land O' Lakes, Florida. There was no impact on the Company's investment in direct financing lease as a result of this exchange. Additionally, on August 15, 2012, the Company completed the sale of a public charter school property for $4.5 million that was leased to Imagine. There was no gain or loss recognized on this sale.

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 September 30, 2012 are as follows (in thousands):

	Amount
Year:	
2012	$5,774
2013	23,576
2014	24,283
2015	25,011
2016	25,762
Thereafter	550,000
Total	$654,406

8. Unconsolidated Real Estate Joint Ventures

At September 30, 2012, the Company had a 42.1% and 29.6% 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 being funded through additional advances under the mortgage note. The Company recognized income of $45 thousand and $1.9 million during the nine months ended September 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 $473 thousand and $1.9 million on its equity investment during the nine months ended September 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR I is as follows as of and for the nine months ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Rental properties, net	$25,541	$26,185
Cash	124	677
Long-term debt (due January 2018)	16,262	—
Partners' equity	10,753	26,943
Rental revenue	2,037	2,958
Net income	250	738

The Company recognized income of $326 thousand and $279 thousand from its equity investment in the Atlantic-EPR II joint venture during the nine months ended September 30, 2012 and 2011, respectively. The Company also received distributions from Atlantic-EPR II of $355 thousand and $310 thousand on its equity investment during the nine months ended September 30, 2012 and 2011, respectively. Condensed financial information for Atlantic-EPR II is as follows as of and for the nine months ended September 30, 2012 and 2011(in thousands):

	2012	2011
Rental properties, net	$20,231	$20,691
Cash	131	159
Long-term debt (due September 2013)	11,929	12,320
Note payable to EPR	117	117
Partners' equity	8,041	8,116
Rental revenue	2,167	2,167
Net income	1,104	1,040

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

15

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 $1.3 million and $490 thousand in exchange for additional ownership of 6.0% and 3.8% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of September 30, 2012 and December 31, 2011, the Company had invested $4.5 million and $4.2 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. The Company recognized income of $295 thousand and $54 thousand from its investment in these joint ventures for the nine months ended September 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 September 30, 2012, the Company had no debt outstanding under its $400.0 million unsecured revolving credit facility, and thus had $400.0 million of available capacity.

On August 8, 2012, the Company issued $350.0 million in senior notes due on August 15, 2022. The notes bear interest at 5.75%. Interest is payable on February 15 and August 15 of each year beginning on February 15, 2013 until the stated maturity date of August 15, 2022. The notes are unsecured and guaranteed by certain of the Company's subsidiaries. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of the Company's debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of the Company's secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause the Company's debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of the Company's outstanding unsecured debt.

During the three months ended September 30, 2012, the Company prepaid in full its mortgage notes payable totaling $167.6 million, which were secured by sixteen theatre properties and one entertainment retail center. In connection with the payment in full of the mortgage notes, $439 thousand of deferred financing costs (net of accumulated amortization) were written off and $38 thousand of additional costs associated with loan payoff were incurred.

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 September 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 September 30, 2012 and was established to explore certain investment opportunities.

Unconsolidated VIE
At September 30, 2012, the Company's recorded investment in SVVI, a VIE that is unconsolidated, was $179.3 million. The Company's maximum exposure to loss associated with SVVI is limited to the Company's outstanding mortgage note and related accrued interest receivable of $179.3 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 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 nine months ended September 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 nine months ended September 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 nine months ended September 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 September 30, 2012, the Company estimates that during the twelve months ending September 30, 2013, $1.7 million will be reclassified from AOCI to interest expense.

Cash Flow Hedges of Foreign Exchange Risk

The Company is exposed to foreign currency exchange risk against its functional currency, the U.S. dollar, on its four Canadian properties. The Company uses cross currency swaps and foreign currency forwards to mitigate its exposure to fluctuations in the CAD to U.S. dollar exchange rate on its Canadian properties. These foreign currency derivatives should hedge a significant portion of the Company's expected CAD denominated cash flow of the Canadian properties

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 September 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 $13.0 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. Additionally, on October 11, 2012, the Company entered into foreign currency forward agreements which settle at the end of each month from January to December 2013. These agreements lock in an exchange rate of $0.98 CAD to $0.99 CAD per U.S. dollar on approximately $500 thousand of monthly CAD denominated cash flows.

The effective portion of changes in the fair value of foreign currency derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in AOCI and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative, as well as amounts excluded from the assessment of hedge effectiveness, is recognized directly in earnings. No hedge ineffectiveness on foreign currency derivatives has been recognized for the nine months ended September 30, 2012 and 2011. As of September 30, 2012, the Company estimates that during the twelve months ending September 30, 2013, $0.8 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 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 nine months ended September 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 nine months ended September 30, 2012 and 2011.

18

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Description	2012	2011	2012	2011
Interest Rate Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(1,540)	$—	$(5,466)	$(4,125)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (1)	(410)	—	(1,188)	(4,722)
Cross Currency Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	(737)	2,373	(851)	894
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (2)	(179)	(172)	(454)	(671)
Currency Forward Agreements				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	(3,363)	6,483	(3,019)	(1,294)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion) (3)	(21)	(4)	(5)	(4,318)
Total				
Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	$(5,640)	$8,856	$(9,336)	$(4,525)
Amount of Income (Expense) Reclassified from AOCI into Earnings (Effective Portion)	(610)	(176)	(1,647)	(9,711)

(1) Included in "Interest expense, net" in the accompanying consolidated statements of income for the three months ended September 30, 2012 and 2011 and for the nine months ended September 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 nine months ended September 30, 2011.

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

(3) Included in "Other expense" in the accompanying consolidated statements of income for the three months ended September 30, 2012 and 2011 and for the nine months ended September 30, 2012. $4.3 million included in "Gain on sale or acquisition of real estate" in the accompanying consolidated statements of income for the nine months ended September 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 September 30, 2012, the fair value of the Company’s derivatives in a liability position related to these agreements was $9.7 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 $9.8 million.

12. Fair Value Disclosures

The Company has certain financial instruments that are required to be measured under the FASB's Fair Value Measurements and Disclosures guidance. The Company currently does not have any non-financial assets and non-

financial liabilities that are required to be measured at fair value on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, the FASB's Fair Value Measurements and Disclosures guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). 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 September 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 September 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 September 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 September 30, 2012
Cross Currency Swaps*	$—	$(1,039)	$—	$(1,039)
Currency Forward Agreements*	$—	$(4,409)	$—	$(4,409)
Interest Rate Swap Agreements*	$—	$(4,279)	$—	$(4,279)

*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 nine months ended September 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 Nine Months Ended September 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 September 30, 2012
Rental properties held for sale, net	$—	$—	$3,895	$3,895
Rental properties, net	$—	$20,756	$43,233	$63,989

As further discussed in Note 4, during the three months ended March 31, 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. Additionally, during the three months ended September 30, 2012, the Company recorded impairment charges of $3.1 million relating to adjustments to the carrying values of certain of the Company's vineyard and winery properties. The $3.1 million is the amount the carrying values of the assets exceed the estimated fair market values. Management estimated the fair values of these assets taking into account the pending purchase agreements. Based on these inputs, the Company determined that its valuation of these investments was classified within Level 2 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 September 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 September 30, 2012, the Company had a carrying value of $411.8 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.82%. 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 10.05%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately $387.4 million at September 30, 2012 .

Investment in a direct financing lease, net:
The fair value of the Company’s investment in a direct financing lease as of September 30, 2012 is estimated by discounting the future cash flows of the instrument using current market rates. At September 30, 2012, the Company had an investment in a direct financing lease with a carrying value of $232.9 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 September 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 September 30, 2012.

Accounts receivable, net:

The carrying values of accounts receivable approximate the fair market value at September 30, 2012.

Notes and related accrued interest receivable, net:
The fair value of the Company’s notes and related accrued interest receivable as of September 30, 2012 is estimated

by discounting the future cash flows of each instrument using current market rates. At September 30, 2012, the Company had a carrying value of $4.9 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 8.46%. 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 $4.8 million at September 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 September 30, 2012 is estimated by discounting the future cash flows of each instrument using current market rates. At September 30, 2012, the Company had a carrying value of $250.6 million in variable rate debt outstanding with a weighted average interest rate of approximately 1.90%. The carrying value of the variable rate debt outstanding approximates the fair market value at September 30, 2012. As described in Note 11, $240.0 million of variable rate debt outstanding at September 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 September 30, 2012, the Company had a carrying value of $1.09 billion in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 6.35%. Discounting the future cash flows for fixed rate debt using an estimated weighted average market rate of 4.97%, management estimates the fair value of the fixed rate debt to be approximately $1.14 billion at September 30, 2012.

Accounts payable and accrued liabilities:
The carrying value of accounts payable and accrued liabilities approximates fair value at September 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 September 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 and nine months ended September 30, 2012 and 2011 (amounts in thousands except per share information):

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$34,210			$96,643		
Less: preferred dividend requirements	(6,002)			(18,005)		
Noncontrolling interest adjustments	(24)			(61)		
Income from continuing operations available to common shareholders	$28,184	46,840	$0.60	$78,577	46,781	$1.68
Loss from discontinued operations available to common shareholders	$(35)	46,840	$—	$(4,260)	46,781	$(0.09)
Net income available to common shareholders	$28,149	46,840	$0.60	$74,317	46,781	$1.59
Diluted EPS:						
Income from continuing operations available to common shareholders	$28,184	46,840		$78,577	46,781	
Effect of dilutive securities:						
Share options	—	250		—	254	
Income from continuing operations available to common shareholders	$28,184	47,090	$0.60	$78,577	47,035	$1.67
Loss from discontinued operations available to common shareholders	$(35)	47,090	$—	$(4,260)	47,035	$(0.09)
Net income available to common shareholders	$28,149	47,090	$0.60	$74,317	47,035	$1.58

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Income from continuing operations	$35,626			$70,210		
Less: preferred dividend requirements and redemption costs	(9,803)			(24,907)		
Noncontrolling interest adjustments	(11)			(13)		
Income from continuing operations available to common shareholders	$25,812	46,680	$0.55	$45,290	46,611	$0.97
Income (loss) from discontinued operations available to common shareholders	$(63)	46,680	$—	$7,089	46,611	$0.15
Net income available to common shareholders	$25,749	46,680	$0.55	$52,379	46,611	$1.12
Diluted EPS:						
Income from continuing operations available to common shareholders	$25,812	46,680		$45,290	46,611	
Effect of dilutive securities:						
Share options	—	238		—	263	
Income from continuing operations available to common shareholders	$25,812	46,918	$0.55	$45,290	46,874	$0.97
Income (loss) from discontinued operations available to common shareholders	$(63)	46,918	$—	$7,089	46,874	$0.15
Net income available to common shareholders	$25,749	46,918	$0.55	$52,379	46,874	$1.12

The additional 1.9 million common shares that would result from the conversion of the Company’s 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of the Company’s 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 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 September 30, 2012, there were 455,963 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:

	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	(58,543)	18.18	—	36.56	19.35
Granted	103,082	44.62	—	47.99	45.60
Forfeited	(396)	18.18	—	46.69	40.03
Outstanding at September 30, 2012	1,046,976	$18.18	—	$65.50	$36.35

The weighted average fair value of options granted was $12.08 and $9.29 during the nine months ended September 30, 2012 and 2011, respectively. The intrinsic value of stock options exercised was $1.5 million and $2.9 million, during the nine months ended September 30, 2012 and 2011, respectively. Additionally, the Company repurchased 35,411 shares into treasury shares in conjunction with the stock options exercised during the nine months ended September 30, 2012 with a total value of $1.6 million. At September 30, 2012, stock-option expense to be recognized in future periods was $1.4 million.

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

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	258,235	6.3		
20.00 - 29.99	168,971	0.5		
30.00 - 39.99	93,499	3.3		
40.00 - 49.99	412,918	6.0		
50.00 - 59.99	10,000	5.6		
60.00 - 65.50	103,353	4.3		
	1,046,976	4.8	$36.35	$11,052

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

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 18.18 - 19.99	158,224	6.4		
20.00 - 29.99	168,971	0.5		
30.00 - 39.99	77,541	2.4		
40.00 - 49.99	247,488	4.3		
50.00 - 59.99	10,000	5.6		
60.00 - 65.50	103,353	4.3		
	765,577	3.7	$36.64	$8,319

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 September 30, 2012	322,808	$42.52	1.13

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 nine months ended September 30, 2012 and 2011, respectively. At September 30, 2012, unamortized share-based compensation expense related to nonvested shares was $7.4 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 September 30, 2012	10,925	$44.62	0.60

The holders of restricted share units receive dividend equivalents from the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. At September 30, 2012, unamortized share-based compensation expense related to restricted share units was $290 thousand.

15. Discontinued Operations

Included in discontinued operations for the three and nine months ended September 30, 2012 are the operations of the Pope Valley winery which was held for sale as of September 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 nine months ended September 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 September 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental revenue	$—	$167	$—	$5,219
Tenant reimbursements	—	—	—	2,409
Mortgage and other financing income	—	21	21	82
Total revenue	—	188	21	7,710
Property operating expense	3	28	(79)	3,097
Other expense	32	61	167	194
Transaction costs	—	3	—	3
Costs associated with loan refinancing or payoff	—	—	—	1,049
Interest expense, net	—	—	(12)	99
Impairment charges	—	—	4,648	11,758

Depreciation and amortization	—	175	277	2,730
Loss before gain on sale or acquisition of real estate	(35)	(79)	(4,980)	(11,220)
Gain on sale or acquisition of real estate	—	16	720	18,309
Net income (loss)	$(35)	$(63)	$(4,260)	$7,089

16. Other Commitments and Contingencies

As of September 30, 2012, the Company had thirteen entertainment development projects for which it has agreed to finance the development costs. At September 30, 2012, the Company had commitments to fund approximately $71.4 million of additional improvements which are expected to be funded in 2012 and 2013. 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.

As of September 30, 2012, the Company has agreed to finance future development costs for one of its education properties. At September 30, 2012, the Company had commitments to fund approximately $1.8 million of additional improvements for this property which is expected to be funded in 2012 and 2013. 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.

As of September 30, 2012, the Company has agreed to finance future development costs for one of its recreation properties. At September 30, 2012, the Company had commitments to fund approximately $4.7 million of additional improvements for this property which is expected to be funded in 2012 and 2013. Development costs are advanced by the Company in periodic draws. If the Company determines that construction is not being completed in accordance with the terms of the development agreement, it can discontinue funding construction draws. The Company has agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

The Company has certain commitments related to its mortgage note investments that it may be required to fund in the future. The Company is generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of September 30, 2012, the Company had seven mortgage notes receivable with commitments totaling approximately $35.5 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

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 September 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.

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, unsecured 5.750% senior notes due 2022, unsecured revolving credit facility and 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 September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011 (in thousands):

Condensed Consolidating Balance Sheet
As of September 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets					
Rental properties, net	$—	$1,065,774	$826,416	$—	$1,892,190
Rental properties held for sale, net	—	—	3,895	—	3,895
Land held for development	—	—	191,442	—	191,442
Property under development	—	26,499	3,987	—	30,486
Mortgage notes and related accrued interest receivable, net	—	375,273	36,482	—	411,755
Investment in a direct financing lease, net	—	232,855	—	—	232,855
Investment in joint ventures	6,871	—	4,528	—	11,399
Cash and cash equivalents	17,838	639	6,530	—	25,007
Restricted cash	2,000	15,406	8,732	—	26,138
Intangible assets, net	—	—	3,667	—	3,667
Deferred financing costs, net	13,983	5,210	1,481	—	20,674
Accounts receivable, net	137	15,068	20,499	—	35,704
Intercompany notes receivable	101,786	—	4,055	(105,841)	—
Notes receivable and related accrued interest receivable, net	180	—	4,767	—	4,947
Investments in subsidiaries	2,212,096	—	—	(2,212,096)	—
Other assets	13,329	3,857	8,027	—	25,213
Total assets	$2,368,220	$1,740,581	$1,124,508	$(2,317,937)	$2,915,372
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	$20,563	$21,364	$12,159	$—	$54,086
Dividends payable	41,133	—	—	—	41,133
Unearned rents and interest	—	12,929	1,252	—	14,181
Intercompany notes payable	—	—	105,841	(105,841)	—
Long-term debt	840,000	—	499,118	—	1,339,118
Total liabilities	901,696	34,293	618,370	(105,841)	1,448,518
Entertainment Properties Trust shareholders' equity	1,466,524	1,706,288	505,808	(2,212,096)	1,466,524
Noncontrolling interests	—	—	330	—	330
Total equity	1,466,524	1,706,288	506,138	(2,212,096)	1,466,854
Total liabilities and equity	$2,368,220	$1,740,581	$1,124,508	$(2,317,937)	$2,915,372

29

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	$—	$958,033	$861,143	$—	$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	1,141	11,552	—	14,625
Restricted cash	—	9,877	9,435	—	19,312
Intangible assets, net	—	—	4,485	—	4,485
Deferred financing costs, net	9,291	7,380	1,856	—	18,527
Accounts receivable, net	79	10,041	24,885	—	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	3,615	3,858	—	22,167
Total assets	$1,774,320	$1,565,795	$1,124,996	$(1,731,116)	$2,733,995
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	$15,560	$9,724	$10,752	$—	$36,036
Dividends payable	38,711	—	—	—	38,711
Unearned rents and interest	—	5,410	1,440	—	6,850
Intercompany notes payable	—	—	103,818	(103,818)	—
Long-term debt	250,000	396,347	507,948	—	1,154,295
Total liabilities	304,271	411,481	623,958	(103,818)	1,235,892
Entertainment Properties Trust shareholders' equity	1,470,049	1,154,314	472,984	(1,627,298)	1,470,049
Noncontrolling interests	—	—	28,054	—	28,054
Total equity	1,470,049	1,154,314	501,038	(1,627,298)	1,498,103
Total liabilities and equity	$1,774,320	$1,565,795	$1,124,996	$(1,731,116)	$2,733,995

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

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$34,812	$26,237	$—	$61,049
Tenant reimbursements	—	492	4,116	—	4,608
Other income	23	2	178	—	203
Mortgage and other financing income	110	15,985	881	—	16,976
Intercompany fee income	683	—	—	(683)	—
Interest income on intercompany notes receivable	4,283	—	89	(4,372)	—
Total revenue	5,099	51,291	31,501	(5,055)	82,836
Equity in subsidiaries' earnings	39,101	—	—	(39,101)	—
Property operating expense	—	1,091	4,848	—	5,939
Intercompany fee expense	—	—	683	(683)	—
Other expense	—	4	522	—	526
General and administrative expense	—	3,341	2,145	—	5,486
Costs associated with loan refinancing or payoff	1	476	—	—	477
Interest expense, net	9,791	2,440	7,763	—	19,994
Interest expense on intercompany notes payable	—	—	4,372	(4,372)	—
Transaction costs	184	—	—	—	184
Impairment charges	—	—	3,086	—	3,086
Depreciation and amortization	259	6,254	6,763	—	13,276
Income before equity in income from joint ventures and discontinued operations	33,965	37,685	1,319	(39,101)	33,868
Equity in income from joint ventures	186	—	156	—	342
Income from continuing operations	$34,151	$37,685	$1,475	$(39,101)	$34,210
Discontinued operations:					
Loss from discontinued operations	—	(3)	(32)	—	(35)
Net income	34,151	37,682	1,443	(39,101)	34,175
Add: Net income attributable to noncontrolling interests	—	—	(24)	—	(24)
Net income attributable to Entertainment Properties Trust	34,151	37,682	1,419	(39,101)	34,151
Preferred dividend requirements	(6,002)	—	—	—	(6,002)
Net income available to common shareholders of Entertainment Properties Trust	$28,149	$37,682	$1,419	$(39,101)	$28,149
Comprehensive income attributable to Entertainment Properties Trust	$34,100	$37,543	$2,638	$(40,181)	$34,100

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

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$30,572	$26,277	$—	$56,849
Tenant reimbursements	—	517	3,902	—	4,419
Other income	23	—	142	—	165
Mortgage and other financing income	106	14,275	160	—	14,541
Intercompany fee income	677	—	—	(677)	—
Interest income on intercompany notes receivable	4,164	—	608	(4,772)	—
Total revenue	4,970	45,364	31,089	(5,449)	75,974
Equity in subsidiaries' earnings	35,438	—	—	(35,438)	—
Property operating expense	—	1,086	4,869	—	5,955
Intercompany fee expense	—	—	677	(677)	—
Other expense	—	—	597	—	597
General and administrative expense	—	2,768	1,787	—	4,555
Interest expense, net	5,077	4,852	7,982	—	17,911
Interest expense on intercompany notes payable	—	—	4,772	(4,772)	—
Transaction costs	145	—	—	—	145
Depreciation and amortization	267	5,301	6,293	—	11,861
Income before equity in income from joint ventures and discontinued operations	34,919	31,357	4,112	(35,438)	34,950
Equity in income from joint ventures	633	—	43	—	676
Income from continuing operations	$35,552	$31,357	$4,155	$(35,438)	$35,626
Discontinued operations:					
Income (loss) from discontinued operations	—	44	(123)	—	(79)
Gain on sale or acquisition of real estate	—	—	16	—	16
Net income	35,552	31,401	4,048	(35,438)	35,563
Add: Net income attributable to noncontrolling interests	—	—	(11)	—	(11)
Net income attributable to Entertainment Properties Trust	35,552	31,401	4,037	(35,438)	35,552
Preferred dividend requirements	(7,034)	—	—	—	(7,034)
Series B preferred share redemption costs	(2,769)	—	—	—	(2,769)
Net income available to common shareholders of Entertainment Properties Trust	$25,749	$31,401	$4,037	$(35,438)	$25,749
Comprehensive income attributable to Entertainment Properties Trust	$32,347	$31,339	$895	$(32,234)	$32,347

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$100,556	$77,987	$—	$178,543
Tenant reimbursements	—	1,098	12,696	—	13,794
Other income	69	(4)	271	—	336
Mortgage and other financing income	313	44,236	2,403	—	46,952
Intercompany fee income	2,026	—	—	(2,026)	—
Interest income on intercompany notes receivable	12,663	—	262	(12,925)	—
Total revenue	15,071	145,886	93,619	(14,951)	239,625
Equity in subsidiaries' earnings	101,333	—	—	(101,333)	—
Property operating expense	—	3,101	14,257	—	17,358
Intercompany fee expense	—	—	2,026	(2,026)	—
Other expense	—	4	1,438	—	1,442
General and administrative expense	—	10,670	7,104	—	17,774
Costs associated with loan refinancing or payoff	1	476	—	—	477
Interest expense, net	23,312	10,267	23,015	—	56,594
Interest expense on intercompany notes payable	—	—	12,925	(12,925)	—
Transaction costs	373	—	—	—	373
Impairment charges	—	—	11,281	—	11,281
Depreciation and amortization	767	18,047	19,535	—	38,349
Income before equity in income from joint ventures and discontinued operations	91,951	103,321	2,038	(101,333)	95,977
Equity in income from joint ventures	371	—	295	—	666
Income from continuing operations	$92,322	$103,321	$2,333	$(101,333)	$96,643
Discontinued operations:					
Income (loss) from discontinued operations	—	1	(333)	—	(332)
Impairment charges	—	—	(4,648)	—	(4,648)
Gain on sale or acquisition of real estate	—	282	438	—	720
Net income (loss)	92,322	103,604	(2,210)	(101,333)	92,383
Add: Net income attributable to noncontrolling interests	—	—	(61)	—	(61)
Net income (loss) attributable to Entertainment Properties Trust	92,322	103,604	(2,271)	(101,333)	92,322
Preferred dividend requirements	(18,005)	—	—	—	(18,005)
Net income (loss) available to common shareholders of Entertainment Properties Trust	$74,317	$103,604	$(2,271)	$(101,333)	$74,317
Comprehensive income (loss) attributable to Entertainment Properties Trust	$89,488	$103,480	$(701)	$(102,779)	$89,488

33

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantors Subsidiaries	Consolidated Elimination	Consolidated
Rental revenue	$—	$90,700	$77,555	$—	$168,255
Tenant reimbursements	—	1,311	12,285	—	13,596
Other income	69	7	244	—	320
Mortgage and other financing income	318	40,973	512	—	41,803
Intercompany fee income	2,060	—	—	(2,060)	—
Interest income on intercompany notes receivable	12,558	—	1,806	(14,364)	—
Total revenue	15,005	132,991	92,402	(16,424)	223,974
Equity in subsidiaries' earnings	73,302	—	—	(73,302)	—
Property operating expense	—	3,421	15,303	—	18,724
Intercompany fee expense	—	—	2,060	(2,060)	—
Other expense	—	—	1,754	—	1,754
General and administrative expense	—	8,928	6,199	—	15,127
Costs associated with loan refinancing or payoff	—	—	5,339	—	5,339
Interest expense, net	14,984	14,817	24,142	—	53,943
Interest expense on intercompany notes payable	—	—	14,364	(14,364)	—
Transaction costs	1,170	—	324	—	1,494
Impairment charges	—	—	24,298	—	24,298
Depreciation and amortization	799	15,817	18,700	—	35,316
Income (loss) before equity in income from joint ventures and discontinued operations	71,354	90,008	(20,081)	(73,302)	67,979
Equity in income from joint ventures	2,177	—	54	—	2,231
Income (loss) from continuing operations	$73,531	$90,008	$(20,027)	$(73,302)	$70,210
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	—	1,858	(1,320)	—	538
Impairment charges	—	—	(11,758)	—	(11,758)
Costs associated with loan refinancing or payoff	—	—	—	—	—
Gain on sale or acquisition of real estate	—	18,293	16	—	18,309
Net income (loss)	77,286	106,404	(33,089)	(73,302)	77,299
Add: Net income attributable to noncontrolling interests	—	—	(13)	—	(13)
Net income (loss) attributable to Entertainment Properties Trust	77,286	106,404	(33,102)	(73,302)	77,286
Preferred dividend requirements	(22,138)	—	—	—	(22,138)

Series B preferred share redemption costs	(2,769)	—	—	—	(2,769)
Net income (loss) available to common shareholders of Entertainment Properties Trust	$52,379	$106,404	$(33,102)	$(73,302)	$52,379
Comprehensive income (loss) attributable to Entertainment Properties Trust	$79,793	$111,247	$(35,437)	$(75,810)	$79,793

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2012

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	$2,026	$—	$ (2,026)	$—
Interest income (expense) on intercompany receivable/payable	12,663	—	(12,663)	—
Net cash provided (used) by other operating activities	(20,457)	116,265	47,611	143,419
Net cash provided by operating activities of continuing operations	(5,768)	116,265	32,922	143,419
Net cash provided by operating activities of discontinued operations	—	1,050	934	1,984
Net cash provided by operating activities	(5,768)	117,315	33,856	145,403
Investing activities:				
Acquisition of rental properties and other assets	(309)	(40,338)	(1,447)	(42,094)
Investment in unconsolidated joint ventures	(1,131)	—	—	(1,131)
Investment in mortgage notes receivable	—	(51,588)	(20,320)	(71,908)
Proceeds from sale of investments in a direct financing lease, net	—	4,494	—	4,494
Additions to property under development	—	(80,122)	(8,843)	(88,965)
Investment in (repayment of) intercompany notes payable	(1,756)	—	1,756	—
Advances to subsidiaries, net	(434,967)	445,805	(10,838)	—
Net cash provided (used) by investing activities of continuing operations	(438,163)	278,251	(39,692)	(199,604)
Net proceeds from sale of real estate from discontinued operations	—	282	12,687	12,969
Net cash provided (used) by investing activities	(438,163)	278,533	(27,005)	(186,635)
Financing activities:				
Proceeds from long-term debt facilities	590,000	208,000	—	798,000
Principal payments on long-term debt	—	(604,347)	(12,053)	(616,400)
Deferred financing fees paid	(5,769)	—	(28)	(5,797)
Net proceeds from issuance of common shares	179	—	—	179
Impact of stock option exercises, net	(485)	—	—	(485)
Purchase of common shares for treasury	(3,232)	—	—	(3,232)
Dividends paid to shareholders	(120,856)	—	—	(120,856)
Net cash provided (used) by financing	459,837	(396,347)	(12,081)	51,409
Effect of exchange rate changes on cash	—	(3)	208	205
Net increase (decrease) in cash and cash equivalents	15,906	(502)	(5,022)	10,382
Cash and cash equivalents at beginning of the period	1,932	1,141	11,552	14,625
Cash and cash equivalents at end of the period	$17,838	$639	$ 6,530	$25,007

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2011

	Entertainment Properties Trust (Issuer)	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidated
Intercompany fee income (expense)	$2,060	$—	$ (2,060)	$—
Interest income (expense) on intercompany receivable/payable	12,558	—	(12,558)	—
Net cash provided by other operating activities	(13,163)	102,527	42,875	132,239
Net cash provided by operating activities of continuing operations	1,455	102,527	28,257	132,239
Net cash provided by operating activities of discontinued operations	—	3,468	(256)	3,212
Net cash provided by operating activities	1,455	105,995	28,001	135,451
Investing activities:				
Acquisition of rental properties and other assets	(573)	(40,744)	(5,110)	(46,427)
Proceeds from sale of real estate	—	—	1,700	1,700
Investment in unconsolidated joint ventures	(2,048)	—	(1,197)	(3,245)
Investment in mortgage note receivable	—	(9,390)	—	(9,390)
Investment in a direct financing lease, net	—	(2,118)	—	(2,118)
Additions to property under development	—	(40,550)	(3,680)	(44,230)
Investment in (repayment of) intercompany notes payable	128,657	(132,067)	3,410	—
Advances to subsidiaries, net	72,380	(133,508)	61,128	—
Net cash provided (used) by investing activities of continuing operations	198,416	(358,377)	56,251	(103,710)
Net cash used in investing activites of discontinued operations	—	(58)	—	(58)
Net proceeds from sale of discontinued operations	—	205,936	18,976	224,912
Net cash provided (used) in investing activites	198,416	(152,499)	75,227	121,144
Financing activities:				
Proceeds from long-term debt facilities	—	328,000	—	328,000
Principal payments on long-term debt	—	(281,678)	(97,750)	(379,428)
Deferred financing fees paid	(391)	(606)	(5)	(1,002)
Net proceeds from issuance of common shares	195	—	—	195
Redemption of preferred shares	(80,030)	—	—	(80,030)
Impact of stock option exercises, net	966	—	—	966
Purchase of common shares for treasury	(3,070)	—	—	(3,070)
Dividends paid to shareholders	(119,164)	—	—	(119,164)
Net cash provided (used) by financing activities	(201,494)	45,716	(97,755)	(253,533)
Effect of exchange rate changes on cash	—	(24)	(512)	(536)
Net increase (decrease) in cash and cash equivalents	(1,623)	(812)	4,961	2,526
Cash and cash equivalents at beginning of the period	3,356	1,713	6,707	11,776
Cash and cash equivalents at end of the period	$1,733	$901	$ 11,668	$14,302

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 September 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Total Assets	1,782,076	366,193	389,561	288,604	88,938	2,915,372

	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 September 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$56,025	$2,602	$797	$1,625	$ —	$61,049
Tenant reimbursements	4,608	—	—	—	—	4,608
Other income	25	—	—	178	—	203
Mortgage and other financing income	1,427	7,563	7,968	18	—	16,976
Total revenue	62,085	10,165	8,765	1,821	—	82,836
Property operating expense	5,801	—	—	138	—	5,939
Other expense	4	—	—	321	201	526
Total investment expenses	5,805	—	—	459	201	6,465
Net operating income - before unallocated items	56,280	10,165	8,765	1,362	(201)	76,371

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(5,486)
Costs associated with loan refinancing or payoff	(477)
Interest expense, net	(19,994)
Transaction costs	(184)
Impairment charges	(3,086)
Depreciation and amortization	(13,276)
Equity in income from joint ventures	342
Discontinued operations:	
Loss from discontinued operations	(35)
Net income	34,175
Noncontrolling interests	(24)
Preferred dividend requirements	(6,002)
Net income available to common shareholders	$28,149

	For the Three Months Ended September 30, 2011					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$54,368	$332	$318	$1,831	$ —	$56,849
Tenant reimbursements	4,419	—	—	—	—	4,419
Other income	24	—	—	141	—	165
Mortgage and other financing income	81	7,352	7,010	72	26	14,541
Total revenue	58,892	7,684	7,328	2,044	26	75,974
Property operating expense	5,736	—	—	219	—	5,955
Other expense	—	—	—	421	176	597
Total investment expenses	5,736	—	—	640	176	6,552
Net operating income - before unallocated items	53,156	7,684	7,328	1,404	(150)	69,422

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(4,555)
Interest expense, net	(17,911)
Transaction costs	(145)
Depreciation and amortization	(11,861)
Equity in income from joint ventures	676
Discontinued operations:	
Loss from discontinued operations	(79)
Gain on sale or acquisition of real estate	16
Net income	35,563
Noncontrolling interests	(11)
Preferred dividend requirements	(7,034)
Series B Preferred Share Redemption Costs	(2,769)
Net income available to common shareholders	$25,749

	For the Nine Months Ended September 30, 2012					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$165,620	$5,742	$2,114	$5,067	$ —	$178,543
Tenant reimbursements	13,794	—	—	—	—	13,794
Other income	71	—	—	265	—	336
Mortgage and other financing income	2,373	22,406	22,016	157	—	46,952
Total revenue	181,858	28,148	24,130	5,489	—	239,625
Property operating expense	17,238	—	—	120	—	17,358
Other expense	4	—	—	978	460	1,442
Total investment expenses	17,242	—	—	1,098	460	18,800
Net operating income - before unallocated items	164,616	28,148	24,130	4,391	(460)	220,825

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(17,774)
Costs associated with loan refinancing or payoff	(477)
Interest expense, net	(56,594)
Transaction costs	(373)
Impairment charges	(11,281)
Depreciation and amortization	(38,349)
Equity in income from joint ventures	666
Discontinued operations:	
Loss from discontinued operations	(332)
Impairment charges	(4,648)
Gain on sale or acquisition of real estate	720
Net income	92,383
Noncontrolling interests	(61)
Preferred dividend requirements	(18,005)
Net income available to common shareholders	$74,317

	For the Nine Months Ended September 30, 2011					
	Entertainment	Education	Recreation	Other	Corporate/Unallocated	Consolidated
Rental revenue	$161,411	$487	$954	$5,403	$ —	$168,255
Tenant reimbursements	13,596	—	—	—	—	13,596
Other income	90	—	—	230	—	320
Mortgage and other financing income	242	21,366	19,866	253	76	41,803
Total revenue	175,339	21,853	20,820	5,886	76	223,974
Property operating expense	18,026	—	—	698	—	18,724
Other expense	—	—	—	1,005	749	1,754
Total investment expenses	18,026	—	—	1,703	749	20,478
Net operating income - before unallocated items	157,313	21,853	20,820	4,183	(673)	203,496

Reconciliation to Consolidated Statements of Income:	
General and administrative expense	(15,127)
Costs associated with loan refinancing or payoff	(5,339)
Interest expense, net	(53,943)
Transaction costs	(1,494)
Impairment charges	(24,298)
Depreciation and amortization	(35,316)
Equity in income from joint ventures	2,231
Discontinued operations:	
Income from discontinued operations	538
Impairment charges	(11,758)
Gain on sale or acquisition of real estate	18,309
Net income	77,299
Noncontrolling interests	(13)
Preferred dividend requirements	(22,138)
Series B preferred share redemption costs	$(2,769)
Net income available to common shareholders	$52,379

19. Subsequent Events

On October 12, 2012, the Company issued 5.0 million shares of 6.625% Series F cumulative redeemable preferred shares (Series F preferred shares) in a registered public offering at a purchase price of $25.00 per share resulting in net proceeds of approximately $120.7 million, after underwriting discounts and expenses. The Company will pay cumulative dividends on the Series F preferred shares from the date of original issuance in the amount of $1.65625 per share each year, which is equivalent to 6.625% of the $25.00 liquidation preference per share. The Company may not redeem the Series F preferred shares before October 12, 2017, except in limited circumstances to preserve the Company’s REIT status or in connection with a change of control. On or after October 12, 2017, the Company may, at its option, redeem the Series F preferred shares in whole at any time or in part from time to time by paying $25.00 per share, plus any accrued and unpaid dividends up to and including the date of redemption. The Series F preferred shares generally have no stated maturity, will not be subject to any sinking fund or mandatory redemption. The Series F preferred shares are not convertible into any of the Company's securities, except under certain circumstances in connection with a change of control. Owners of the Series F preferred shares generally have no voting rights except under dividend default.

The Company also issued a notice of redemption to the registered holders of all 4.6 million outstanding shares of its 7.375% Series D preferred shares notifying such holders of the Company's intent to redeem all such shares outstanding

on November 5, 2012.

On October 29, 2012, the Company entered into a secured first mortgage loan agreement for $22.0 million with the developers of the North Carolina Music Factory located in Charlotte, North Carolina. The loan is secured by an existing entertainment retail center that includes live performance and other dining and entertainment tenants. The note bears interest beginning at 10.25% with increases of 1.0% every five years, requires monthly interest payments and matures on October 31, 2032.

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 our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on July 27, 2012 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 September 30, 2012, our total assets exceeded $2.9 billion (after accumulated deprecation of approximately $370 million), and included investments in 113 megaplex theatre properties (including two joint venture properties), 38 public charter school properties and various restaurant, retail, entertainment, destination recreational and specialty properties located in 36 states, the District of Columbia and Ontario, Canada. As of September 30, 2012, we had invested approximately $221.9 million in development land and property under development and approximately $411.8 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 12 mortgage notes totaling $411.8 million at September 30, 2012. Two of these mortgage notes, totaling $179.3 million at September 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 $159.0 million related to financing provided for ski areas, three mortgage notes totaling $21.2 million related to financing for the development of two public charter school properties, one $16.3 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 $3.2 billion at September 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 September 30, 2012 (in thousands):

Rental properties, net of accumulated depreciation	$1,892,190
Rental properties held for sale, net of accumulated depreciation	3,895
Add back accumulated depreciation on rental properties	369,854
Add back accumulated depreciation on rental properties held for sale	319
Land held for development	191,442
Property under development	30,486
Mortgage notes and related accrued interest receivable, net	411,755
Investment in a direct financing lease, net	232,855
Investment in joint ventures	11,399
Intangible assets, net of accumulated amortization	3,667
Add back accumulated amortization on intangible assets	10,818
Notes receivable and related accrued interest receivable, net	4,947
Total investments	$3,163,627

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 $3.2 billion at September 30, 2012, $2.1 billion or 67% related to entertainment properties which includes megaplex theatres, entertainment retail centers and other retail parcels, $363.6 million or 11% related to education properties which consists entirely of investments in public charter schools, $378.6 million or 12% related to recreation properties and $306.4 million or 10% related to other properties, including $187.0 million related to the land held for development in Sullivan County, New York and $119.4 million related to vineyards and wineries. At September 30, 2012, affiliates of Imagine Schools, Inc. ("Imagine") were the lessees of 68% of our public charter school properties (including one property 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

42

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 nine months ended September 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.

On August 8, 2012, we issued $350.0 million in senior notes due on August 15, 2022. The notes bear interest at 5.75%. Interest is payable on February 15 and August 15 of each year beginning on February 15, 2013 until the stated maturity date of August 15, 2022. The notes are unsecured and guaranteed by certain of our subsidiaries.

During the three months ended September 30, 2012, we prepaid in full our mortgage notes payable totaling $167.6 million, which were secured by sixteen theatre properties and one entertainment retail center. In connection with the payment in full of the mortgage notes, $439 thousand of deferred financing costs (net of accumulated amortization) were written off and $38 thousand of additional costs associated with loan refinancing or payoff were incurred.

Issuance of Series F Preferred Shares

On October 12, 2012, we issued 5.0 million shares of 6.625% Series F cumulative redeemable preferred shares ("Series F preferred shares") in a registered public offering at a purchase price of $25.00 per share resulting in net proceeds of approximately $120.7 million, after underwriting discounts and expenses. We will pay cumulative dividends on the Series F preferred shares from the date of original issuance in the amount of $1.65625 per share each year, which is equivalent to 6.625% of the $25.00 liquidation preference per share. See Note 19 to the consolidated financial statements in this Form 10-Q for more information.

Redemption of Series D Preferred Shares

We issued a notice of redemption to the registered holders of all 4.6 million outstanding shares of our 7.375% Series D preferred shares notifying such holders of our intent to redeem all such shares outstanding on November 5, 2012. The shares are expected to be redeemed at a redemption price of $25.18 per share. This price is the sum of the $25.00 per share liquidation preference and a quarterly dividend per share of $0.4609375 prorated through the redemption date for a total aggregate redemption price of approximately $115.8 million. In conjunction with the anticipated redemption, we expect to recognize a charge representing the original issuance costs that were paid in 2007 and other

redemption related expenses. The aggregate reduction to net income available to common shareholders is expected to be approximately $3.9 million.

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. Atlantic-EPR I entered into an agreement to develop a family entertainment venue at the secured property for approximately $4.0 million which is being funded through additional advances under the mortgage note. The carrying value of the mortgage note at September 30, 2012 was $16.3 million.

On February 23, 2012, we acquired two TopGolf golf entertainment 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. Additionally, on September 21, 2012, we acquired another TopGolf golf entertainment facility for a purchase price of $7.3 million. As a part of this transaction, we have agreed to finance $4.7 million in development costs for this property. The facility is located in Houston, Texas and is 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 $11.5 million in construction costs for these two facilities, of which $7.8 million has been funded through September 30, 2012. The facilities are leased to Latitude Global pursuant to long-term triple-net leases.

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 being developed by HighMark 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 note has an effective interest rate of approximately 9.3%, which is net of a 2% servicer fee to HighMark. The carrying value of the mortgage note at September 30, 2012 was $18.5 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 September 30, 2012 was $36.0 million, including related accrued interest receivable of $32 thousand.

On July 31, 2012, we entered into a development agreement to develop a public charter school property in Tarboro, North Carolina that is leased to HighMark under a long-term triple-net lease. We have agreed to finance $5.4 million in development costs for this property, of which $3.6 million has been funded through September 30, 2012.

On September 26, 2012, we entered into a secured first mortgage loan agreement for $3.4 million with UME Preparatory Academy. The loan is secured by approximately 28 acres of land located in Dallas, Texas, which is expected to be developed by HighMark into a public charter school. The note bears interest beginning at 10.25% with increases of 0.5% every five years, requires monthly interest payments and matures on June 30, 2033. The note is expected to have an effective interest rate of approximately 10.3% upon completion of development, which is net of a 2% servicer fee to HighMark. The carrying value of the mortgage note at September 30, 2012 was $1.0 million.

During the three months ended September 30, 2012, we completed development of five public charter school properties. The total development cost (including land and building) was approximately $46.9 million. Three of the properties are leased under long-term triple-net leases to HighMark and are located in Salt Lake City and Hurricane, Utah and

Phoenix, Arizona. The remaining two properties are leased under long-term triple-net leases to Portfolio Charter Investments and are located in Buckeye and Queen Creek, Arizona. Additionally, we funded $5.6 million for expansions at two of our existing public charter school properties.

During the nine months ended September 30, 2012, we entered into development agreements to develop or redevelop eleven entertainment properties including seven new theatre development projects and four theatre redevelopment projects. We have agreed to finance $73.8 million in development costs for these properties, of which $6.0 million has been funded through September 30, 2012. Additionally, we completed development or redevelopment of four entertainment properties for a total investment of $13.4 million.

During the nine months ended September 30, 2012, we advanced $8.9 million under our 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 September 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 $4.6 million under two of the secured mortgage loan agreements with Peak to provide for additional improvements made to three ski properties.

On October 29, 2012, we entered into a secured first mortgage loan agreement for $22.0 million with the developers of the North Carolina Music Factory located in Charlotte, North Carolina. The loan is secured by an existing entertainment retail center that includes live performance and other dining and entertainment tenants. The note bears interest beginning at 10.25% with increases of 1.0% every five years, requires monthly interest payments and matures on October 31, 2032.

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. On July 13, 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. Additionally, on August 15, 2012, we completed the sale of a public charter school property for $4.5 million that was leased to Imagine. The sold school is not one of the schools discussed above and there was no gain or loss on this sale. As of September 30, 2012, Imagine was current on all payments under the master lease of 26 public charter schools, and we do not anticipate any delay in future payments.

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 a noncontrolling interest at the time of settlement which was determined to be $27.8 million. During the nine months ended September 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.

During the nine months ended September 30, 2012, we have expended $7.0 million in pursuit of the necessary environmental and land use approvals and permits for the proposed casino anchored development in Sullivan County, New York.

The following details our investment spending during the nine months ended September 30, 2012 and 2011 (in thousands):

For the Nine Months Ended September 30, 2012

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Investment in Mortgage Notes	Investment in Joint Ventures
Entertainment	$85,733	$23,201	$ 8,418	$16,983	$36,000	$1,131
Education	68,606	49,100	—	—	19,506	—
Recreation	40,986	—	—	27,323	13,663	—
Other	6,985	6,985	—	—	—	—
Total Investment Spending	$202,310	$79,286	$ 8,418	$44,306	$69,169	$1,131

For the Nine Months Ended September 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	$61,149	$4,134	$ 8,976	$44,795	$—	$3,244
Education	36,349	34,231	—	—	—	2,118
Recreation	9,390	—	—	—	9,390	—
Total Investment Spending	$106,888	$38,365	$ 8,976	$44,795	$9,390	$5,362

The above amounts include $85 thousand and $35 thousand in capitalized payroll, $435 thousand and $324 thousand in capitalized interest and $1.1 million and $1.4 million in capitalized other general and administrative direct project costs for the nine months ended September 30, 2012 and 2011, respectively. In addition, the Company had $1.9 million and $2.7 million of maintenance capital expenditures for the nine months ended September 30, 2012 and 2011, respectively.

Vineyards and Wineries

During the three months ended March 31, 2012, we began negotiations on or entered into non-binding agreements to sell five 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 September 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.

During the three months ended September 30, 2012, we began negotiations on or entered into non-binding agreements to sell the remaining assets at one of our unleased vineyard and winery properties to two separate buyers. As a result, in the third quarter of 2012, we revised our estimated undiscounted cash flows associated with this asset group, considering the shorter expected holding period, and determined that those estimated cash flows were not sufficient to recover the carrying values of these assets. We determined the estimated fair value of these assets (included in the Other segment) to be $20.8 million using Level 2 inputs and recorded impairment charges totaling $3.1 million during the third quarter of 2012. Management estimated the fair values of these assets taking into account the pending purchase agreements.

Results of Operations

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

Rental revenue was $61.0 million for the three months ended September 30, 2012 compared to $56.8 million for the three months ended September 30, 2011. Rental revenue increased $4.2 million from the prior period, of which $3.4 million was related to acquisitions completed in 2012 and 2011, and $0.8 million was related to net rent increases on existing properties. Percentage rents of $0.5 million were recognized during both the three months ended September 30, 2012 and 2011, respectively. Straight-line rents of $2.0 million and $0.1 million were recognized during the three months ended September 30, 2012 and 2011, respectively.

During the three months ended September 30, 2012, we experienced a increase of approximately 2.3% in rental rates on approximately 201,000 square feet with respect to significant lease renewals and new leases on existing properties. There were no tenant improvements or leasing commissions related to these renewals.
Tenant reimbursements totaled $4.6 million for the three months ended September 30, 2012 compared to $4.4 million for the three months ended September 30, 2011. These tenant reimbursements arise from the operations of our entertainment retail centers. The $0.2 million increase is primarily due to an increase in tenant reimbursements at our retail centers located in Ontario, Canada for the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Mortgage and other financing income for the three months ended September 30, 2012 was $17.0 million compared to $14.5 million for the three months ended September 30, 2011. The $2.5 million increase is primarily due to increased real estate lending activities. We also recognized participating interest income of $0.8 million and $0.4 million from SVVI for the three months ended September 30, 2012 and 2011, respectively.

Our property operating expense totaled $5.9 million for the three months ended September 30, 2012 compared to $6.0 million for the three months ended September 30, 2011. These property operating expenses arise from the operations of our retail centers and other specialty properties. Property operating expense decreased by $0.1 million due to a decrease in bad debt expense of $0.3 million which was partially offset by an increase in property operating expenses of $0.2 million at our retail centers and other specialty properties.

Our general and administrative expense totaled $5.5 million for the three months ended September 30, 2012 compared to $4.6 million for the three months ended September 30, 2011. The increase of $0.9 million is primarily due to an increase in payroll related expenses, travel costs and professional fees.

Costs associated with loan refinancing or payoff were $0.5 million for the three months ended September 30, 2012 and related to the prepayment of our mortgage notes payable totaling $167.6 million. There were no costs associated with loan refinancing for the three months ended September 30, 2011.

Our net interest expense increased by $2.1 million to $20.0 million for the three months ended September 30, 2012 from $17.9 million for the three months ended September 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 September 30, 2012 were $3.1 million and related to one of our vineyard and winery properties. For further detail, see Note 4 to the consolidated financial statements included in this Form 10-Q. There were no impairment charges for the three months ended September 30, 2011.

Depreciation and amortization expense totaled $13.3 million for the three months ended September 30, 2012 compared to $11.9 million for the three months ended September 30, 2011. The $1.4 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 September 30, 2012 compared to $0.7 million for the three months ended September 30, 2011. The $0.4 million decrease is primarily 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 $0.04 million for the three months ended September 30, 2012 and included the operations of the Pope Valley vineyard and winery (Pope Valley) which was held for sale as of September 30, 2012. Loss from discontinued operations totaled $0.1 million for the three months ended September 30, 2011 and related to the above mentioned property and the operations of the EOS vineyard and winery sold on September 20, 2011 as well as the operations of a portion of our Buena Vista vineyard that was sold on May 25, 2012. For further detail, see Note 15 to the consolidated financial statements included in this Form 10-Q.

Preferred dividend requirements for the three months ended September 30, 2012 were $6.0 million compared to $7.0 million for the three months ended September 30, 2011. The $1.0 million decrease is due to the redemption of 3.2 million Series B preferred shares on August 31, 2011.

The Series B preferred share redemption costs of $2.8 million for the three months ended September 30, 2011 were due to the redemption of all of the Series B preferred shares on August 31, 2011 and consist of the original issuance costs that were paid in 2005 and other redemption related expenses. There was no such expense incurred during the three months ended September 30, 2012.

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Rental revenue was $178.5 million for the nine months ended September 30, 2012 compared to $168.3 million for the nine months ended September 30, 2011. Rental revenue increased $10.2 million from the prior period, of which $8.9 million was related to acquisitions completed in 2012 and 2011 and $1.3 million was related to net rent increases on existing properties. Percentage rents of $1.1 million and $1.0 million were recognized during the nine months ended September 30, 2012 and 2011, respectively. Straight-line rents of $3.7 million and $0.4 million were recognized during the nine months ended September 30, 2012 and 2011, respectively.

During the nine months ended September 30, 2012, we experienced a decrease of approximately 5.2% in rental rates on approximately 645,000 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 $10.57 per square foot in tenant improvements and a weighted average of $0.48 per square foot in leasing commissions.

Tenant reimbursements totaled $13.8 million for the nine months ended September 30, 2012 compared to $13.6 million for the nine months ended September 30, 2012. These tenant reimbursements arise from the operations of our entertainment retail centers. The $0.2 million increase is primarily due to an increase in tenant reimbursements at our

retail centers in Ontario, Canada.

Mortgage and other financing income for the nine months ended September 30, 2012 was $47.0 million compared to $41.8 million for the nine months ended September 30, 2011. The $5.2 million increase is primarily due to increased real estate lending activities. We also recognized participating interest income of $0.8 million and $0.4 million from SVVI for the nine months ended September 30, 2012 and 2011, respectively.

Our property operating expense totaled $17.4 million for the nine months ended September 30, 2012 compared to $18.7 million for the nine months ended September 30, 2011. These property operating expenses arise from the operations of our retail centers and other specialty properties. Property operating expense decreased by $1.3 million primarily due to a decrease in bad debt expense of $1.2 million as well as decreases in property operating expenses of $0.1 million at our retail centers and other specialty properties.

Other expense for the nine months ended September 30, 2012 was $1.4 million compared to $1.8 million for the nine months ended September 30, 2011. The $0.4 million decrease is primarily due to $0.3 million less loss recognized upon settlement of foreign currency forward and swap contracts as well as $0.1 million in lower expenses related to certain of our vineyard an winery properties which are being operated thorough a wholly-owned taxable REIT subsidiary.

Our general and administrative expense totaled $17.8 million for the nine months ended September 30, 2012 compared to $15.1 million for the nine months ended September 30, 2011. The increase of $2.7 million is primarily due to an increase in payroll related expenses, travel costs, franchise taxes and professional fees.

Costs associated with loan refinancing or payoff were $0.5 million for the nine months ended September 30, 2012 and related to the prepayment of our mortgage notes payable totaling $167.6 million. Costs associated with loan refinancing or payoff, net were $5.3 million for the nine months ended September 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.

Our net interest expense increased by $2.7 million to $56.6 million for the nine months ended September 30, 2012 from $53.9 million for the nine months ended September 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 $0.4 million for the nine months ended September 30, 2012 compared to $1.5 million for the nine months ended September 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 nine months ended September 30, 2012 were $11.3 million compared to $24.3 million for the nine months ended September 30, 2011 and related to certain of our vineyard and winery properties.

Depreciation and amortization expense totaled $38.3 million for the nine months ended September 30, 2012 compared to $35.3 million for the nine months ended September 30, 2011. The $3.0 million increase resulted primarily from asset acquisitions completed in 2012 and 2011.

Equity in income from joint ventures totaled $0.7 million for the nine months ended September 30, 2012 compared to $2.2 million for the nine months ended September 30, 2011. The $1.5 million decrease is primarily 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 $5.0 million for the nine months ended September 30, 2012 and included the operations of Pope Valley which was held for sale as of September 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 $11.2 million for the nine months ended September 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 nine months ended September 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 nine months ended September 30, 2011 was due to the March 29, 2011 sale of Toronto Dundas Square.

Preferred dividend requirements for the nine months ended September 30, 2012 were $18.0 million compared to $22.1 million for the nine months ended September 30, 2011. The $4.1 million decrease is due to the redemption of 3.2 million Series B preferred shares on August 31, 2011.

The Series B preferred share redemption costs of $2.8 million for the nine months ended September 30, 2011 were due to the redemption of all of the Series B preferred shares on August 31, 2011 and consist of the original issuance costs that were paid in 2005 and other redemption related expenses. There was no such expense incurred during the nine months ended September 30, 2012.

Liquidity and Capital Resources

Cash and cash equivalents were $25.0 million at September 30, 2012. In addition, we had restricted cash of $26.1 million at September 30, 2012. Of the restricted cash at September 30, 2012, $12.6 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, Senior Notes, Credit Facility and Term Loan
As of September 30, 2012, we had total debt outstanding of $1.3 billion of which $488.5 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 September 30, 2012, we had outstanding $250.0 million in aggregate principal amount of unsecured 7.75% senior notes due on July 15, 2020 and $350.0 million in aggregate principal amount of unsecured 5.75% senior notes due on August 15, 2022, all of which 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 September 30, 2012, we had no debt outstanding under our $400.0 million unsecured revolving credit facility, with interest at a floating rate of LIBOR plus 160 basis points. 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 September 30, 2012, our total availability

under the unsecured revolving credit facility was $400.0 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 and 5.75% 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 September 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 September 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 $145.4 million and $135.5 million for the nine months ended September 30, 2012 and 2011, respectively. Net cash used by investing activities was $186.6 million for the nine months ended September 30, 2012 and net cash provided by investing activities was $121.1 million for the nine months ended September 30, 2011. Net cash provided by financing activities was $51.4 million and net cash used by financing activities was $253.5 million for the nine months ended September 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.

On October 12, 2012, we issued 5.0 million shares of 6.625% Series F cumulative redeemable preferred shares in a registered public offering at a purchase price of $25.00 per share resulting in net proceeds of approximately $120.7 million, after underwriting discounts and expenses. These shares are callable by us after five years or earlier under certain circumstances. We will pay cumulative dividends on the Series F preferred shares from the date of original issuance in the amount of $1.65625 per share each year, which is equivalent to 6.625% of the $25.00 liquidation preference per share. See Note 19 to the consolidated financial statements in this Form 10-Q for more information. In conjunction with this offering, we issued a notice of redemption to the registered holders of all 4.6 million outstanding

shares of our 7.375% Series D preferred shares notifying such holders of our intent to redeem all such shares outstanding on November 5, 2012. The shares are expected to be redeemed at a redemption price of $25.18 per share. This price is the sum of the $25.00 per share liquidation preference and a quarterly dividend per share of $0.4609375 prorated through the redemption date for a total aggregate redemption price of approximately $115.8 million.

Commitments

As of September 30, 2012, we have 13 entertainment development projects under construction for which we have agreed to finance the development costs. At September 30, 2012, we have commitments to fund approximately $71.4 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 one of our education properties. At September 30, 2012, we have commitments to fund approximately $1.8 million of additional improvements for this property 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.

As of September 30, 2012, we had agreed to finance future development costs for one of our recreation properties. At September 30, 2012, we had commitments to fund approximately $4.7 million of additional improvements for this property which is expected to be funded in 2012. Development costs are advanced by us in periodic draws. If the we determine that construction is not being completed in accordance with the terms of the development agreement, it 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 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 September 30, 2012, we had seven mortgage notes receivable with commitments totaling approximately $35.5 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

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 September 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.

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.

We have no debt maturities for the remainder of 2012 and 2013. Our cash commitments, as described above, include additional commitments under various mortgage notes receivable totaling approximately $35.5 million. Of the $35.5 million of mortgage note receivable commitments, approximately $10.4 million is expected to be funded in 2012.

Our sources of liquidity as of September 30, 2012 to pay the above 2012 commitments include the remaining amount available under our unsecured revolving credit facility of approximately $400.0 million and unrestricted cash on hand of $25.0 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 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 September 30, 2012, we had a 42.1% and 29.6% 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 income of $45 thousand and $1.9 million during the nine months ended September 30, 2012 and 2011, respectively, from our equity investment in the Atlantic-EPR I joint venture. We recognized income of $326 thousand and $279 thousand from our equity investment in the Atlantic-EPR II joint venture during the nine months ended September 30, 2012 and 2011, respectively. The Atlantic-EPR II joint venture has a mortgage note payable secured by a megaplex theatre that totals $11.9 million at September 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 our partner, 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 nine months ended September 30, 2012, we paid Atlantic cash of $1.3 million and $490 thousand in exchange for additional ownership of 6.0% and 3.8% for Atlantic-EPR I and Atlantic-EPR II, respectively. These exchanges did not impact total partners' equity in either Atlantic-EPR I or Atlantic-EPR II.

In addition, as of September 30, 2012 and December 31, 2011, we had invested $4.5 million and $4.2 million, respectively, in unconsolidated joint ventures for three theatre projects located in China. We recognized income of $295 thousand and $54 thousand from our investment in these joint ventures for the nine months ended September 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 September 30, 2012, this ratio was 41%. Our long-term debt as a percentage of our total market capitalization at September 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 $3.8 billion by aggregating the following at September 30, 2012:

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Common shares outstanding of 46,841,039 multiplied by the last reported sales price of our common shares on the NYSE of $44.43 per share, or $2.1 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 was 3.6 times for both the nine months ended September 30, 2012 and 2011. 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):

	Nine Months Ended September 30,	
	2012	2011
Net income	$92,383	$77,299
Interest expense, gross	57,137	54,455
Interest cost capitalized	(479)	(386)
Depreciation and amortization	38,626	38,047
Share-based compensation expense to management and Trustees	4,416	4,211
Costs associated with loan refinancing or payoff	477	6,388
Straight-line rental revenue	(3,705)	(668)
Gain on sale or acquisition of real estate	(720)	(18,309)
Transaction costs	373	1,497
Impairment charges	15,929	36,056
Interest coverage amount	$204,437	$198,590
Interest expense, net	$56,582	$54,043
Interest income	76	26
Interest cost capitalized	479	386
Interest expense, gross	$57,137	$54,455
Interest coverage ratio	3.6	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):

	Nine Months Ended September 30,	
	2012	2011
Net cash provided by operating activities	$145,403	$135,451
Equity in income from joint ventures	666	2,231
Distributions from joint ventures	(827)	(2,176)
Amortization of deferred financing costs	(3,224)	(2,821)
Amortization of above market leases, net	—	(20)
Increase in mortgage notes accrued interest receivable	828	410
Increase (decrease) in restricted cash	1,744	(10,272)
Increase (decrease) in accounts receivable, net	291	(4,352)
Decrease in notes and accrued interest receivable	(68)	(72)
Increase in direct financing lease receivable	3,730	3,795
Increase in other assets	2,480	2,632
Decrease in accounts payable and accrued liabilities	2,528	13,844
Decrease (increase) in unearned rents	(2,478)	413
Straight-line rental revenue	(3,705)	(668)
Interest expense, gross	57,137	54,455
Interest cost capitalized	(479)	(386)
Costs associated with loan refinancing or payoff (cash portion)	38	4,629
Transaction costs	373	1,497
Interest coverage amount	$204,437	$198,590

Our fixed charge coverage ratio for the nine months ended September 30, 2012 and 2011 was 2.7 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):

	Nine Months Ended September 30,	
	2012	2011
Interest coverage amount	$204,437	$198,590
Interest expense, gross	57,137	54,455
Preferred share dividends	18,005	22,138
Fixed charges	$75,142	$76,593
Fixed charge coverage ratio	2.7	2.6

Our debt service coverage ratio for both the nine months ended September 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

55

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):

	Nine Months Ended September 30,	
	2012	2011
Interest coverage amount	$204,437	$198,590
Interest expense, gross	57,137	54,455
Recurring principal payments	17,795	18,361
Debt service	$74,932	$72,816
Debt service coverage ratio	2.7	2.7

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 nine months ended September 30, 2012 and 2011 (unaudited, in thousands, except per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income available to common shareholders of Entertainment Properties Trust	$28,149	$25,749	$74,317	$52,379
Gain on sale or acquisition of real estate	—	(16)	(720)	(18,309)
Real estate depreciation and amortization	13,013	11,765	37,844	37,237
Allocated share of joint venture depreciation	146	113	432	334
Impairment charges	3,086	—	15,929	36,056
FFO available to common shareholders of Entertainment Properties Trust	$44,394	$37,611	$127,802	$107,697
FFO per common share attributable to Entertainment Properties Trust:				
Basic	$0.95	$0.81	$2.73	$2.31
Diluted	0.94	0.80	2.72	2.30
Shares used for computation (in thousands):				
Basic	46,840	46,680	46,781	46,611
Diluted	47,090	46,918	47,035	46,874
Other financial information:				
Dividends per common share	$0.75	$0.70	$2.25	$2.10

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 September 30, 2012 and 2011 because the effect is anti-dilutive.

57

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 nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
FFO available to common shareholders of Entertainment Properties Trust	$44,394	$37,611	$127,802	$107,697
Adjustments:				
Transaction costs	184	148	373	1,497
Non-real estate depreciation and amortization	263	271	781	810
Deferred financing fees amortization	1,047	1,034	3,224	2,821
Costs associated with loan refinancing or payoff	477	—	477	6,388
Share-based compensation expense to management and Trustees	1,418	1,371	4,416	4,211
Maintenance capital expenditures (1)	(730)	(946)	(2,150)	(3,148)
Straight-lined rental revenue	(2,042)	(92)	(3,705)	(668)
Non-cash portion of mortgage and other financing income	(1,193)	(1,268)	(3,734)	(3,877)
Amortization of above market leases, net	—	—	—	20
Preferred share redemption costs	—	2,769	—	2,769
AFFO available to common shareholders of Entertainment Properties Trust	$43,818	$40,898	$127,484	$118,520

(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.

58

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 no balance outstanding as of September 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. On October 11, 2012, the Company entered into foreign currency forward agreements which settle at the end of each month from January to December 2013. These agreements lock in an exchange rate of $0.98 CAD to $0.99 CAD per U.S. dollar on approximately $500 thousand of monthly CAD denominated cash flows.

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.

59

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 effectiveness 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.

Item 1A. Risk Factors

There were no material changes during the quarter from the risk factors previously discussed in 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 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on July 27, 2012.

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
July 1 through July 31, 2012 common stock	—		$—	—	$—
August 1 through August 31, 2012 common stock	548	(1)	41.13	—	—
September 1 through September 30, 2012 common stock	—		—	—	—
Total	548		$41.13	—	$—

(1) The repurchase of equity securities during August of 2012 was completed in conjunction with the vesting of employee
nonvested shares. 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 September 30, 2012.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

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

Item 6. Exhibits

4.1	Indenture, dated August 8, 2012, among the Company, certain of its subsidiaries, as guarantors, and U.S. Bank National Association, as trustee, which is attached as Exhibit 4.1 to the Company's Form 8-K (Commission File No. 001-13561) filed on August 8, 2012, which is incorporated by reference as Exhibit 4.1.
4.2	Form of 5.750% Senior Notes due 2022 (included as Exhibit A to Exhibit 4.1 above).
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:	October 31, 2012	By	/s/ David M. Brain David M. Brain, President and Chief Executive Officer (Principal Executive Officer)
Dated:	October 31, 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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