WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended June 30, 2007

OR

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

For the transition period from [__________________] to [________________]

Commission file number 1-9876

WEINGARTEN REALTY INVESTORS
(Exact name of registrant as specified in its charter)

TEXAS	**74-1464203**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
2600 Citadel Plaza Drive	
P.O. Box 924133	
Houston, Texas	**77292-4133**
(Address of principal executive offices)	**(Zip Code)**

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.YES xNO ¨.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).YES ¨NO x.

As of July 31, 2007, there were 86,450,425 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues:				
Rentals	$ 143,281	$ 130,708	$ 286,234	$ 258,277
Other	3,181	1,245	5,216	3,444
Total	146,462	131,953	291,450	261,721
Expenses				
Depreciation and amortization	32,541	30,039	64,807	59,618
Operating	25,301	20,723	48,723	38,930
Ad valorem taxes	16,869	15,453	33,300	30,713
General and administrative	6,504	5,648	13,113	11,003
Total	81,215	71,863	159,943	140,264
Operating Income	65,247	60,090	131,507	121,457
Interest Expense	(35,653)	(34,331)	(71,719)	(68,361)
Interest and Other Income	3,044	579	4,756	2,031
Equity in Earnings of Real Joint Ventures and Partnerships, net	4,273	4,547	7,620	8,613
Income Allocated to Minority Interests	(3,497)	(1,644)	(4,675)	(3,301)
Gain (Loss) on Sale of Properties	(65)	52	1,994	103
Gain on Land and Merchant Development Sales	3,285		3,951	1,676
Benefit (Provision) for Income Taxes	(1,012)	371	(1,003)	(148)
Income from Continuing Operations	35,622	29,664	72,431	62,070
Operating Income (Loss) from Discontinued Operations	(389)	4,496	1,301	9,612
Gain on Sale of Properties from Discontinued Operations	40,544	56,106	53,430	73,193
Income from Discontinued Operations	40,155	60,602	54,731	82,805
Net Income	75,777	90,266	127,162	144,875
Dividends on Preferred Shares	(5,775)	(2,525)	(10,503)	(5,050)
Net Income Available to Common Shareholders	$ 70,002	$ 87,741	$ 116,659	$ 139,825
Net Income Per Common Share - Basic:				
Income from Continuing Operations	$ 0.34	$ 0.30	$ 0.71	$ 0.64
Income from Discontinued Operations	0.47	0.68	0.64	0.92
Net Income	$ 0.81	$ 0.98	$ 1.35	$ 1.56
Net Income Per Common Share - Diluted:				
Income from Continuing Operations	$ 0.34	$ 0.30	$ 0.71	$ 0.64
Income from Discontinued Operations	0.45	0.65	0.61	0.89

Net Income	$	0.79	$	0.95	$	1.32	$	1.53
Net Income	$	75,777	$	90,266	$	127,162	$	144,875
Other Comprehensive Income:								
Unrealized gain on derivatives		4,472		2,720		4,497		6,471
Amortization of loss on derivatives		220		86		439		171
Other Comprehensive Income		4,692		2,806		4,936		6,642
Comprehensive Income	$	80,469	$	93,072	$	132,098	$	151,517

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2007	December 31, 2006
ASSETS		
Property	$ 4,625,139	$ 4,445,888
Accumulated Depreciation	(732,249)	(707,005)
Property Held for Sale, net	5,124	
Property, net	3,898,014	3,738,883
Investment in Real Estate Joint Ventures and Partnerships	277,270	203,839
Total	4,175,284	3,942,722
Notes Receivable from Real Estate Joint Ventures and Partnerships	20,958	3,971
Unamortized Debt and Lease Cost	113,303	112,873
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $7,423 in 2007 and $5,995 in 2006)	63,128	78,893
Cash and Cash Equivalents	46,301	71,003
Restricted Deposits and Mortgage Escrows	86,766	94,466
Other	118,412	71,612
Total	$ 4,624,152	$ 4,375,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$ 2,893,907	$ 2,900,952
Accounts Payable and Accrued Expenses	138,161	132,821
Other	123,183	128,306
Total	3,155,251	3,162,079
Minority Interest	96,071	87,680
Commitments and Contingencies		
Shareholders' Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued and outstanding in 2007 and 2006; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2007 and 2006; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 80 shares issued and outstanding in 2007; liquidation preference $200,000	2	
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 150,000; shares issued and outstanding:		

86,448 in 2007 and 85,765 in 2006	2,604	2,582
Accumulated Additional Paid-In Capital	1,347,483	1,136,481
Net Income in Excess of (Less Than) Accumulated Dividends	30,301	(786)
Accumulated Other Comprehensive Loss	(7,564)	(12,500)
Shareholders' Equity	1,372,830	1,125,781
Total	$ 4,624,152	$ 4,375,540

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash Flows from Operating Activities:		
Net Income	$ 127,162	$ 144,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,476	65,535
Equity in earnings of real estate joint ventures and partnerships, net	(7,620)	(8,613)
Income allocated to minority interests	4,675	3,301
Gain on land and merchant development sales	(3,951)	(1,676)
Gain on sales of properties	(55,424)	(73,295)
Distributions of income from real estate joint ventures and partnerships	2,267	873
Changes in accrued rent and accounts receivable	12,067	10,209
Changes in other assets	(39,707)	(35,603)
Changes in accounts payable and accrued expenses	(5,233)	1,415
Other, net	(929)	889
Net cash provided by operating activities	99,783	107,910
Cash Flows from Investing Activities:		
Investment in properties	(351,881)	(176,108)
Proceeds from sales and disposition of property, net	205,576	165,556
Change in restricted deposits and mortgage escrows	6,812	(1,245)
Mortgage bonds and notes receivable:		
Advances	(29,286)	(14,024)
Collections	998	35,770
Real estate joint ventures and partnerships:		
Investments	(40,294)	(8,099)
Distributions	3,651	10,501
Net cash (used in) provided by investing activities	(204,424)	12,351
Cash Flows from Financing Activities:		
Proceeds from issuance of:		
Debt	19,092	71,802
Common shares of beneficial interest	2,348	715
Preferred shares of beneficial interest	193,978	
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable	(21,509)	
Principal payments of debt	(17,922)	(14,685)
Common and preferred dividends paid	(96,075)	(88,410)
Debt issuance cost paid	(761)	
Other, net	788	485
Net cash provided by (used in) financing activities	79,939	(30,093)

Net (decrease) increase in cash and cash equivalents	(24,702)	90,168
Cash and cash equivalents at January 1	71,003	42,690
Cash and cash equivalents at June 30	$ 46,301	$ 132,858

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Interim Financial Statements

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2006 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in our annual financial statements and notes. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2006.

Business
Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Real Estate Investment Trust Act. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties which includes neighborhood and community shopping centers and industrial properties of approximately 68 million square feet. We have a diversified tenant base with our largest tenant comprising only 3% of total rental revenues during 2007.

We currently operate and intend to operate in the future as a REIT.

Basis of Presentation
Our condensed consolidated financial statements include the accounts of our subsidiaries and certain partially owned real estate joint ventures or partnerships which meet the guidelines for consolidation. All significant intercompany balances and transactions have been eliminated.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. Such statements require management to make estimates and assumptions that affect the reported amounts on our condensed consolidated financial statements.

Revenue Recognition
Rental revenue is generally recognized on a straight-line basis over the life of the lease, which begins the date the leasehold improvements are substantially complete, if owned by us, or the date the tenant takes control of the space, if the leasehold improvements are owned by the tenant. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recognized. Revenue based on a percentage of tenants' sales is recognized only after the tenant exceeds their sales breakpoint.

Real Estate Joint Ventures and Partnerships
To determine the method of accounting for partially owned real estate joint ventures and partnerships, we first apply the guidelines set forth in FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities." Based upon our analysis, we have determined that we have no variable interest entities.

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Partially owned real estate joint ventures and partnerships over which we exercise financial and operating control are consolidated in our financial statements. In determining if we exercise financial and operating control, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Partially owned real estate joint ventures and partnerships where we have the ability to exercise significant influence, but do not exercise financial and operating control, are accounted for using the equity method.

Property

Real estate assets are stated at cost less accumulated depreciation, which, in the opinion of management, is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Major replacements where the betterment extends the useful life of the asset are capitalized and the replaced asset and corresponding accumulated depreciation are removed from the accounts. All other maintenance and repair items are charged to expense as incurred.

Acquisitions of properties are accounted for utilizing the purchase method and, accordingly, the results of operations of an acquired property are included in our results of operations from the respective dates of acquisition. We have used estimates of future cash flows and other valuation techniques to allocate the purchase price of acquired property among land, buildings on an "as if vacant" basis and other identifiable intangibles. Other identifiable intangible assets and liabilities include the effect of out-of-market leases, the value of having leases in place (lease origination and absorption costs), out-of-market assumed mortgages and tenant relationships.

Property also includes costs incurred in the development of new operating properties and properties in our merchant development program. These properties are carried at cost and no depreciation is recorded on these assets. These costs include preacquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes. Indirect development costs, including salaries and benefits, travel and other related costs that are directly attributable to the development of the property, are also capitalized. The capitalization of such costs ceases at the earlier of one year from the completion of major construction or when the property, or any completed portion, becomes available for occupancy.

Property also includes costs for tenant improvements paid by us, including reimbursements to tenants for improvements that are owned by us and will remain our property after the lease expires.

Our properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of either the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis or the estimated net sales price to the carrying amount of such property. Such carrying amount is adjusted, if necessary, to the estimated fair value less cost to sell to reflect an impairment in the value of the asset. No impairment was recorded for both the quarter and the six months ending June 30, 2007 and 2006.

Some of our properties are held in single purpose entities. A single purpose entity is a legal entity typically established at the request of a lender solely for the purpose of owning a property or group of properties subject to a mortgage. There may be restrictions limiting the entity’s ability to engage in an activity other than owning or operating the property, assume or guarantee the debt of any other entity, or dissolve itself or declare bankruptcy before the debt has been repaid. Most of our single purpose entities are 100% owned by us and are consolidated in our financial statements.

Interest Capitalization

Interest is capitalized on land under development and buildings under construction based on rates applicable to borrowings outstanding during the period and the weighted average balance of qualified assets under development/construction during the period.

Deferred Charges

Debt and lease costs are amortized primarily on a straight-line basis, which approximates the effective interest method, over the terms of the debt and over the lives of leases, respectively. Lease costs represent the initial direct costs incurred in origination, negotiation and processing of a lease agreement. Such costs include outside broker commissions and other independent third party costs, as well as salaries and benefits, travel and other internal costs directly related to completing the leases. Costs related to supervision, administration, unsuccessful origination efforts and other activities not directly related to completed lease agreements are charged to expense as incurred.

Sales of Real Estate

Sales of real estate include the sale of shopping center pads, property adjacent to shopping centers, shopping center properties, merchant development properties, investments in real estate ventures and partial sales to joint ventures in which we participate.

We recognize profit on sales of real estate, including merchant development sales, in accordance with SFAS No. 66, "Accounting for Sales of Real Estate." Profits are not recognized until (a) a sale is consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; (c) the seller's receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership in the transaction, and we do not have a substantial continuing involvement with the property.

We recognize gains on the sale of real estate to joint ventures in which we participate to the extent we receive cash from the joint venture and if it meets the sales criteria in accordance with SFAS No. 66.

Accrued Rent and Accounts Receivable

Receivable balances outstanding include base rents, tenant reimbursements and receivables attributable to the straight lining of rental commitments. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon an analysis of balances outstanding, historical bad debt levels, customer credit worthiness and current economic trends. Additionally, estimates of the expected recovery of pre-petition and post-petition claims with respect to tenants in bankruptcy are considered in assessing the collectibility of the related receivables.

Restricted Deposits and Mortgage Escrows

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held in a qualified escrow account for the purposes of completing like-kind exchange transactions. At June 30, 2007 and December 31, 2006, we had $69.0 million and $79.4 million held for like-kind exchange transactions, respectively, and $17.8 million and $15.1 million held in escrow related to our mortgages, respectively.

Other Assets

Other assets in our condensed consolidated financial statements include investments held in grantor trusts, prepaid expenses, the value of above-market leases and assumed mortgages and the related accumulated amortization, deferred tax assets and other miscellaneous receivables. Investments held in grantor trusts are adjusted to fair value at each period end with changes included in our Condensed Consolidated Statements of Income and Comprehensive Income. Above-market leases and assumed mortgages are amortized over terms of the acquired leases and the remaining life of the mortgages, respectively.

Per Share Data
Net income per common share - basic is computed using net income available to common shareholders and the weighted average shares outstanding. Net income per common share - diluted includes the effect of potentially dilutive securities for the periods indicated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Numerator:				
Net income available to common shareholders – basic	$ 70,002	$ 87,741	$ 116,659	$ 139,825
Income attributable to operating partnership units	1,103	1,368	2,209	2,768
Net income available to common shareholders – diluted	$ 71,105	$ 89,109	$ 118,868	$ 142,593
Denominator:				
Weighted average shares outstanding – basic	86,274	89,519	86,140	89,446
Effect of dilutive securities:				
Share options and awards	1,011	854	1,063	905
Operating partnership units	2,450	3,160	2,565	3,151
Weighted average shares outstanding – diluted	89,735	93,533	89,768	93,502

Options to purchase 518,814 and 364,520 common shares for the three months ended June 30, 2007 and 2006, respectively, were not included in the calculation of net income per common share - diluted as the exercise prices were greater than the average market price for the period. Options to purchase 3,220 and 364,220 common shares for the six months ended June 30, 2007 and 2006, respectively, were not included in the calculation of net income per common share - diluted as the exercise prices were greater than the average market price for the period.

As of August 6, 2007, we have purchased or committed to purchase 1.1 million common shares of beneficial interest at an average share price of $37.20 from the net proceeds of our property disposition program, as well as from general corporate funds, during 2007. Had all of these purchases occurred on January 1, 2007, earnings per common share – basic and earnings per common share – diluted for the three months ended June 30, 2007 would have both increased by $.01, and earnings per common share – basic and earnings per common share – diluted for the six months ended June 30, 2007 would have both increased by $.02.

Income Taxes
We have elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. To be taxed as a REIT, we must meet a number of requirements including defined percentage tests concerning the amount of our assets and revenues that come from, or are attributable to, real estate operations. As long as we distribute at least 90% of the taxable income of the REIT to our shareholders as dividends, we will not be taxed on the portion of our income we distribute as dividends unless we have ineligible transactions.

The Tax Relief Extension Act of 1999 gave REITs the ability to conduct activities which a REIT was previously precluded from doing as long as such activities are performed in entities which have elected to be treated as taxable REIT subsidiaries under the IRS code. These activities include buying or developing properties with the express purpose of selling them. We conduct certain of these activities in taxable REIT subsidiaries that we have created. We calculate and record income taxes in our financial statements based on the activities in those entities. We also record deferred taxes for the temporary tax differences that have resulted from those activities as required under SFAS No.

109, “Accounting for Income Taxes.”

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Cash Flow Information
All highly liquid investments with original maturities of three months or less are considered cash equivalents. We issued common shares of beneficial interest valued at $12.6 million and $3.3 million during the first six months of June 30, 2007 and 2006, respectively, in exchange for interests in limited partnerships, which had been formed to acquire properties. Cash payments for interest on debt, net of amounts capitalized, of $75.1 million and $71.4 million were made during the first six months of 2007 and 2006, respectively. A cash payment of $.3 million for federal income taxes was made during the first six months of 2006, and no federal income tax payments were made during the first six months of 2007. In association with property acquisitions and investments in unconsolidated joint ventures, items assumed were as follows (in thousands):

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Debt	$ 26,419	$ 18,961
Obligations Under Capital Leases	12,888	
Minority Interest	23,582	11,116
Net Assets and Liabilities	3,600	6,989

Net assets and liabilities were reduced by $59.8 million during the first six months of 2007 from the reorganization of three joint ventures, two of which were previously consolidated, to tenancy-in-common arrangements where we have a 50% interest. This reduction was offset by the assumption of debt totalling $33.2 million. We also accrued $7.9 million and $4.2 million during the first six months of 2007 and 2006, respectively, associated with the construction of property. In conjunction with the disposition of properties completed during the first six months of 2007, we defeased two mortgage loans totaling $21.2 million and transferred marketable securities totalling $21.5 million in connection with the legal defeasance of these two loans.

Reclassifications
The reclassification of prior years' operating results for certain properties to discontinued operations was made to conform to the current year presentation. For additional information see Note 8, "Discontinued Operations."

Note 2. Newly Adopted Accounting Pronouncements

In June 2006 the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. There are also several disclosure requirements. We adopted FIN 48 as of January 1, 2007, and its adoption did not have a material effect on our financial statements.

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing and (3) the expanded disclosures about fair value measurements. This Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS No. 157 in the first quarter of 2008, and we are currently evaluating the impact that this Statement will have on our financial statements.

In September 2006 the FASB issued FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132R.” This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan’s over-funded status or a liability for a plan’s under-funded status; (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements were effective for us as of December 31, 2006, and as a result we recognized an additional liability of $803,000. The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position (the “Measurement Provision”) is effective for fiscal years ending after December 15, 2008. We have assessed the potential impact of the Measurement Provision of SFAS No. 158 and concluded that its adoption will not have a material effect on our financial statements.

In September 2006 the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), which became effective for us as of December 31, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 31, 2006 did not have a material effect on our financial statements.

In February 2007 the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will choose to measure any eligible financial assets and liabilities at fair value under the provisions of SFAS No. 159.

On July 25, 2007, the FASB authorized a FASB Staff Position (the “proposed FSP”) that, if issued, would affect the accounting for our convertible and exchangeable senior debentures. If issued in the form expected, the proposed FSP would require that the initial debt proceeds from the sale of our convertible and exchangeable senior debentures be allocated between a liability component and an equity component. The resulting debt discount would be amortized over the period the debt is expected to be outstanding as additional interest expense. The proposed FSP is expected to be effective for fiscal years beginning after December 15, 2007 and requires retroactive application. We are currently evaluating the impact that this proposed FSP will have on our financial statements.

Note 3. Derivatives and Hedging

We occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate swaps with major financial institutions. At June 30, 2007, we had five interest rate swap contracts designated as fair value hedges with an aggregate notional amount of $75.0 million that convert fixed interest payments at rates ranging from 4.2% to 6.8% to variable interest payments. We have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates. Also, at June 30, 2007, we had two forward-starting interest rate swap contracts with an aggregate notional amount of $118.6 million which lock the swap rate at 5.2% until January 2008. The purpose of these forward-starting swaps, which are designated as cash flow hedges, is to mitigate the risk of future fluctuations in interest rates on forecasted issuances of long-term debt. We have determined that they are highly effective in offsetting future variable interest cash flows on anticipated long-term debt issuances.

Changes in the fair value of fair value hedges, as well as changes in the fair value of the hedged item, are recorded in earnings each reporting period. For the quarter and six months ending June 30, 2007 and 2006, these changes in fair value offset with minimal impact to earnings. The derivative instruments at June 30, 2007 and December 31, 2006 were reported at their fair values in Other Assets, net of accrued interest, of $4.1 million and $.1 million, respectively, and as Other Liabilities, net of accrued interest, of $3.8 million and $3.2 million, respectively.

As of June 30, 2007 and December 31, 2006, the balance in Accumulated Other Comprehensive Loss relating to derivatives was $2.7 million and $7.6 million, respectively. Amounts amortized to interest expense were $.2 million and $.1 million during the second quarter of 2007 and 2006, respectively, and $.4 million and $.2 million during the first six months of 2007 and 2006, respectively. Within the next 12 months, we expect to amortize to interest expense approximately $.9 million of the balance in Accumulated Other Comprehensive Loss.

The interest rate swaps increased interest expense and decreased net income by $.1 million and $.3 million for the three and six months ended June 30, 2007, respectively, and increased the average interest rate of our debt by 0.02% for both periods. For the three and six months ended June 30, 2006, the interest rate swaps increased interest expense and decreased net income by $.1 million and $.2 million, respectively, and increased the average interest rate of our debt by 0.02% for both periods. We could be exposed to credit losses in the event of nonperformance by the counter-party; however, management believes the likelihood of such nonperformance is remote.

Note 4. Debt

Our debt consists of the following (in thousands):

	June 30, 2007	December 31, 2006
Debt payable to 2030 at 4.5% to 8.8%	$ 2,809,989	$ 2,848,805
Unsecured notes payable under revolving credit agreements	37,000	18,000
Obligations under capital leases	42,613	29,725
Industrial revenue bonds payable to 2015 at 3.8% to 6.19%	4,305	4,422
Total	$ 2,893,907	$ 2,900,952

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

	June 30, 2007	December 31, 2006
As to interest rate (including the effects of interest rate swaps):		
Fixed-rate debt	$ 2,759,686	$ 2,785,553
Variable-rate debt	134,221	115,399
Total	$ 2,893,907	$ 2,900,952
As to collateralization:		
Unsecured debt	$ 1,928,110	$ 1,910,216
Secured debt	965,797	990,736

Total	$ 2,893,907	$ 2,900,952

In February 2006 we amended and restated our $400 million unsecured revolving credit facility. The amended facility has an initial four-year term and provides a one-year extension option available at our request. Borrowing rates under this amended facility float at a margin over LIBOR, plus a facility fee. The borrowing margin and facility fee, which are currently 37.5 and 12.5 basis points, respectively, are priced off a grid that is tied to our senior unsecured credit ratings. This amended facility retains a competitive bid feature that allows us to request bids for amounts up to $200 million from each of the syndicate banks, allowing us an opportunity to obtain pricing below what we would pay using the pricing grid. Additionally, the amended facility contains an accordion feature, which allows us the ability to increase the facility up to $600 million.

At June 30, 2007 and December 31, 2006 the balance outstanding under the $400 million revolving credit facility was $37 million at a variable interest rate of 5.74% and $18 million at a variable interest rate of 5.75%, respectively. We also have an agreement for an unsecured and uncommitted overnight facility totaling $20 million with a bank that is used for cash management purposes, of which no amounts were outstanding as of June 30, 2007 and December 31, 2006. Letters of credit totaling $9.5 million and $10.1 million were outstanding under the $400 million revolving credit facility at June 30, 2007 and December 31, 2006, respectively. The available balance under our revolving credit agreement was $353.5 million and $371.9 million at June 30, 2007 and December 31, 2006, respectively. During the first six months of 2007, the maximum balance and weighted average balance outstanding under both the $400 million and the $20 million revolving credit facilities combined were $100.0 million and $15.4 million, respectively, at a weighted average interest rate of 5.7%. During 2006 the maximum balance and weighted average balance outstanding under both the $400 million and the $20 million revolving credit facilities combined were $368.2 million and $179.1 million, respectively, at a weighted average interest rate of 5.5%.

In conjunction with acquisitions completed during the first six months of 2007, we assumed $26.4 million of nonrecourse debt secured by the related properties and a capital lease obligation totaling $12.9 million. As of December 31, 2006, the balance of secured debt that was assumed in conjunction with 2006 acquisitions was $140.7 million.

In conjunction with the disposition of properties completed during the first six months of 2007, we incurred a net loss of $.4 million on the early extinguishment of two loans totaling $21.2 million. These defeasance costs were recognized as Interest Expense and have been reclassified and reported as discontinued operations in the Condensed Consolidated Statements of Income and Comprehensive Income in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Scheduled principal payments on our debt (excluding $37.0 million due under our revolving credit agreements, $31.5 million of capital leases and $3.8 million fair value of interest rate swaps) are due during the following years (in thousands):

2007	$ 71,084
2008	252,170
2009	113,096
2010	118,754
2011	889,866
2012	307,421
2013	283,393
2014	338,356
2015	196,705
Thereafter	258,284

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios and minimum net worth requirements and maximum total debt levels. Management believes that we are in compliance with all restrictive covenants.

In December 2006 we issued $75 million of 10-year unsecured fixed rate medium term notes at 6.1% including the effect of an interest rate swap that had hedged the transaction. Proceeds from this issuance were used to repay balances under our revolving credit facilities, to cash settle a forward hedge and for general business purposes.

In July 2006 we priced an offering of $575 million of 3.95% convertible senior unsecured notes due 2026, which closed on August 2, 2006. Interest is payable sem