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ENTERTAINMENT PROPERTIES TRUST
Form 10-Q
August 03, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

COMMISSION FILE NUMBER 1-13561

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

MARYLAND
(State or other jurisdiction
of incorporation or organization)

43-1790877
(I.R.S. Employer
Identification No.)

30 PERSHING ROAD, SUITE 201
KANSAS CITY, MISSOURI
(Address of principal executive office)

64108
(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 NO

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 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At August 1, 2006, there were 26,461,879 Common Shares of Beneficial Interest

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outstanding.

1

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENTERTAINMENT PROPERTIES TRUST
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	JUNE 30, 2006	DECEMBER 31,
	-----	-----
	(Unaudited)	
ASSETS		
Rental properties, net of accumulated depreciation of \$127.2 million and \$112.7 million at June 30, 2006 and December 31, 2005, respectively	\$1,328,685	\$1,283,98
Property under development	27,701	19,77
Mortgage notes and related accrued interest receivable	65,740	44,06
Investment in joint ventures	2,240	2,29
Cash and cash equivalents	7,477	6,54
Restricted cash	4,690	13,12
Intangible assets, net	10,299	10,46
Deferred financing costs, net	11,388	10,89
Other assets	29,973	23,01
	-----	-----
Total assets	\$1,488,193	\$1,414,16
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	\$ 8,043	\$ 7,92
Common dividends payable	18,190	15,77
Preferred dividends payable	2,916	2,91
Unearned rents	1,188	1,30
Long-term debt	733,265	714,59
	-----	-----
Total liabilities	763,602	742,50
Minority interest	5,035	5,23
Shareholders' equity:		
Common Shares, \$.01 par value; 50,000,000 shares authorized; 27,128,279 and 25,881,647 shares issued at June 30, 2006 and December 31, 2005, respectively	271	25
Preferred Shares, \$.01 par value; 10,000,000 shares authorized: 2,300,000 Series A shares issued at June 30, 2006 and December 31, 2005; liquidation preference of \$57,500,000	23	2
3,200,000 Series B shares issued at June 30, 2006 and December 31, 2005; liquidation preference of \$80,000,000	32	3
Additional paid-in-capital	751,418	700,70
Treasury shares at cost: 670,450 and 649,142 common shares at June 30, 2006 and December 31, 2005, respectively	(15,269)	(14,35
Loans to shareholders	(3,525)	(3,52

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Accumulated other comprehensive income	19,442	13,400
Distributions in excess of net income	(32,836)	(30,120)
	-----	-----
Shareholders' equity	719,556	666,420
	-----	-----
Total liabilities and shareholders' equity	\$1,488,193	\$1,414,160
	=====	=====

2

ENTERTAINMENT PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Rental revenue	\$44,480	\$36,138	\$83,610	\$70,288
Tenant reimbursements	3,526	3,091	6,976	6,070
Other income	819	1,073	2,282	1,887
Mortgage financing interest	2,355	472	4,179	472
	-----	-----	-----	-----
Total revenue	51,180	40,774	97,047	78,717
Property operating expense	4,802	3,749	9,573	7,613
Other operating expense	969	516	2,007	1,163
General and administrative expense	5,295	2,304	7,777	4,037
Costs associated with loan refinancing	--	--	673	--
Interest expense, net	11,706	10,239	22,945	19,761
Depreciation and amortization	7,805	6,832	15,301	13,370
	-----	-----	-----	-----
Income before gain on sale of land and income from joint ventures	20,603	17,134	38,771	32,773
Gain on sale of land	--	--	345	--
Equity in income from joint ventures	192	188	376	362
	-----	-----	-----	-----
Net income	\$20,795	\$17,322	\$39,492	\$33,135
Preferred dividend requirements	(2,916)	(2,916)	(5,831)	(5,522)
	-----	-----	-----	-----
Net income available to common shareholders	\$17,879	\$14,406	\$33,661	\$27,613
	=====	=====	=====	=====
Net income per common share:				
Basic	\$ 0.68	\$ 0.58	\$ 1.30	\$ 1.11
	=====	=====	=====	=====
Diluted	\$ 0.67	\$ 0.57	\$ 1.28	\$ 1.09
	=====	=====	=====	=====
Shares used for computation (in thousands):				
Basic	26,285	24,984	25,989	24,949
Diluted	26,666	25,475	26,380	25,429
Dividends per common share	\$0.6875	\$0.6250	\$1.3750	\$1.2500
	=====	=====	=====	=====

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3

ENTERTAINMENT PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	COMMON STOCK		PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	TREASURY SHARES
	SHARES	PAR	SHARES	PAR		
Balance at December 31, 2005	25,882	\$259	5,500	\$55	\$700,704	\$(14,350)
Shares issued to Trustees	4	--	--	--	161	--
Issuance of restricted share grants	83	1	--	--	(1)	--
Amortization of restricted share grants	--	--	--	--	3,291	--
Share option expense	--	--	--	--	671	--
Foreign currency translation adjustment	--	--	--	--	--	--
Net income	--	--	--	--	--	--
Purchase of 21,308 common shares for treasury	--	--	--	--	--	(919)
Issuances of common shares in Dividend Reinvestment Plan	9	--	--	--	390	--
Issuance of common shares, net of costs of \$1.1 million	1,150	11	--	--	46,202	--
Dividends to common shareholders (\$1.3750 per share)	--	--	--	--	--	--
Dividends to Series A preferred shareholders (\$1.1876 per share)	--	--	--	--	--	--
Dividends to Series B preferred shareholders (\$0.9688 per share)	--	--	--	--	--	--
Balance at June 30, 2006	27,128	\$271	5,500	\$55	\$751,418	\$(15,269)

	LOANS TO SHAREHOLDERS	ACCUMULATED OTHER COMPREHENSIVE INCOME	DISTRIBUTIONS IN EXCESS OF NET INCOME	TOTAL
Balance at December 31, 2005	\$(3,525)	\$13,402	\$(30,124)	\$666,421
Shares issued to Trustees	--	--	--	161
Issuance of restricted share grants	--	--	--	--
Amortization of restricted share grants	--	--	--	3,291
Share option expense	--	--	--	671
Foreign currency translation adjustment	--	6,040	--	6,040
Net income	--	--	39,492	39,492
Purchase of 21,308 common shares for treasury	--	--	--	(919)
Issuances of common shares in Dividend Reinvestment Plan	--	--	--	390
Issuance of common shares, net of costs of \$1.1 million	--	--	--	46,213

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Dividends to common shareholders (\$1.3750 per share)	--	--	(36,373)	(36,373)
Dividends to Series A preferred shareholders (\$1.1876 per share)	--	--	(2,731)	(2,731)
Dividends to Series B preferred shareholders (\$0.9688 per share)	--	--	(3,100)	(3,100)
	-----	-----	-----	-----
Balance at June 30, 2006	\$(3,525)	\$19,442	\$(32,836)	\$719,556
	=====	=====	=====	=====

4

ENTERTAINMENT PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Net income	\$20,795	\$17,322	\$39,492	\$33,135
Other comprehensive income (loss):				
Foreign currency translation adjustment	6,804	408	6,040	(721)
	-----	-----	-----	-----
Comprehensive income	\$27,599	\$17,730	\$45,532	\$32,414
	=====	=====	=====	=====

5

ENTERTAINMENT PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
	-----	-----
Operating activities:		
Net income	\$ 39,492	\$ 33,135
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of land	(345)	--
Costs associated with loan refinancing	673	--
Equity in income from joint ventures	(376)	(362)
Depreciation and amortization	15,301	13,370

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Amortization of deferred financing costs	1,395	1,536
Share-based compensation expense to management and trustees	4,042	930
Increase in mortgage note accrued interest receivable	(3,955)	(474)
Increase in other assets	(1,440)	(1,578)
Increase (decrease) in accounts payable and accrued liabilities	273	(1,840)
Increase (decrease) in unearned rents	(122)	1,193
	-----	-----
Net cash provided by operating activities	54,938	45,910
	-----	-----
Investing activities:		
Acquisition of rental properties and other assets	(41,215)	(93,324)
Net proceeds from sale of real estate	603	566
Additions to property under development	(19,013)	(15,470)
Distributions from joint ventures	433	427
Investment in promissory note receivable	(3,500)	--
Investment in mortgage note receivable	(15,332)	(37,525)
	-----	-----
Net cash used in investing activities	(78,024)	(145,326)
	-----	-----
Financing activities:		
Proceeds from long-term debt facilities	193,696	149,000
Principal payments on long-term debt	(172,926)	(94,981)
Deferred financing fees paid	(2,497)	(427)
Net proceeds from issuances of common shares	46,603	462
Net proceeds from issuance of preferred shares	--	77,261
Impact of stock option exercises, net	--	(983)
Purchase of common shares for treasury	(919)	(759)
Distributions paid to minority interest	(200)	(383)
Dividends paid to shareholders	(39,784)	(33,726)
	-----	-----
Net cash provided by financing activities	23,973	95,464
Effect of exchange rate changes on cash	44	(89)
	-----	-----
Net increase (decrease) in cash and cash equivalents	931	(4,041)
Cash and cash equivalents at beginning of period	6,546	11,255
	-----	-----
Cash and cash equivalents at end of period	\$ 7,477	\$ 7,214
	=====	=====
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental property	\$ 11,371	\$ 17,241
Issuance of shares to management and trustees	\$ 3,441	\$ 2,787
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 22,287	\$ 19,084
Cash paid (received) during the period for income taxes	\$ (77)	\$ 245

ENTERTAINMENT PROPERTIES TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

DESCRIPTION OF BUSINESS

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Entertainment Properties Trust (the Company) is a Maryland real estate investment trust (REIT) organized on August 29, 1997. The Company was formed to acquire and develop megaplex theatres, entertainment retail centers (centers generally anchored by an entertainment component such as a megaplex theatre and containing other entertainment-related properties) and other specialty properties. The Company's properties are located in the United States and Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. In addition, operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The consolidated balance sheet as of December 31, 2005 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by 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, 2005.

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 in those of the Company's leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. Straight-line rent receivable is included in other assets and was \$6.0 million and \$3.4 million at June 30, 2006 and 2005, respectively. 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 are recognized at the time when specific triggering events occur as provided by the lease agreements. Percentage rents of \$877 thousand and \$1.0 million were recognized during the six months ended June 30, 2006 and 2005, 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 \$4.1 million were recognized during the six months ended June 30, 2006. No termination fees were recognized during the six months ended June 30, 2005.

CONCENTRATION OF RISK

American Multi-Cinema, Inc. (AMC) is the lessee of a substantial portion (57%) of the megaplex theatre rental properties held by the Company (including joint venture properties) at June 30, 2006 as a result of a series of sale leaseback transactions pertaining to a number of AMC megaplex theatres. A substantial portion of the Company's rental revenues (approximately 56%) result from the

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rental payments by AMC under the leases, or its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC's obligations under the leases. AMCE has publicly held debt and accordingly, their financial information is publicly available.

7

SHARE-BASED COMPENSATION

Share based compensation expense, including both share option expense and restricted share expense, is included in general and administrative expense in the accompanying consolidated statements of income, and totaled \$4.0 million and \$930 thousand for the six months ended June 30, 2006 and 2005, respectively.

Share Options

During 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standard (SFAS) No. 123 "Accounting for Stock-Based Compensation." The Company was required to adopt SFAS No. 123R, "Share-Based Payment," beginning January 1, 2006. In compliance with this standard, the Company has recorded share-based compensation expense in the current year related to all options for employees and trustees. The fair value of share options granted under the Company's Share Incentive Plan is determined using the Black-Scholes model. Prior to 2006, the Company accounted for share options granted under the Share Incentive Plan using the fair value recognition provisions of SFAS No. 123 for all awards granted, modified, or settled after January 1, 2003. Prior to January 1, 2003, the Company accounted for share options issued under the Share Incentive Plan under APB Opinion No. 25 "Accounting for Stock Issued to Employees," and, accordingly, recognized no expense for options granted to employees and trustees. Awards under the Company's plan vest either immediately or up to a period of 5 years. Share option expense for all options is recognized on a straight-line basis over the vesting period, except for those unvested options held by a retired executive discussed in Note 12 below which have been fully expensed as of June 30, 2006.

The expense related to share options included in the determination of net income for the six months ended June 30, 2006 and 2005 was \$671 thousand (including \$522 thousand in expense recognized related to unvested share options held by a retired executive discussed in Note 12 below) and \$45 thousand, respectively. The expense related to share options included in the determination of net income for the six months ended June 30, 2005 was less than that which would have been recognized if the fair value based method had been applied to all awards (as required in SFAS No. 123R). If the fair value based method had been applied to all outstanding and unvested awards for the six months ended June 30, 2005, total share option expense would have been \$83 thousand. This difference in expense had no material impact on either reported basic or reported diluted earnings per share for the six months ended June 30, 2005.

The fair value for all outstanding and unvested awards was estimated at the date of grant dates using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.8% to 5.0% and 4.0% for the six months ended June 30, 2006 and 2005, respectively, dividend yield of 5.8% and 6.0% for the six months ended June 30, 2006 and 2005, respectively, volatility factors in the expected market price of the Company's common shares of 21.1% and 20.7% for the six months ended June 30, 2006 and 2005, respectively; and an expected life of the options of eight years.

Restricted Shares

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The Company grants restricted shares pursuant to both its Annual Incentive Plan and its Share Incentive Plan. Historically, awards granted pursuant to the Annual Incentive Plan have allowed employees the choice to receive their bonuses either in cash or restricted shares. If an employee elected to receive restricted shares, the employee received a premium over the corresponding cash amount (25% or 50%) and the shares would vest over the following three years. In years prior to 2006, most of the value of bonus awards issued pursuant to the Annual Incentive Plan went to employees who elected to receive restricted shares. Consistent with the accounting for restricted shares issued pursuant to the Share Incentive Plan, which vest over periods of three to five years, the Company has historically amortized the expense related to restricted shares issued pursuant to the Annual Incentive Plan on a straight-line basis over the future vesting period.

Because employees can require awards under the Annual Incentive Plan to be settled in cash, the Company has determined that such awards should be expensed in the period earned rather than over the future vesting period, even if

8

such employees elect to take their bonuses in restricted shares. It was also determined that any premium awarded under the restricted share alternative should continue to be amortized over the future vesting period consistent with the Company's past practice. As a result, the Company recognized additional expense of \$1.7 million in the quarter ended June 30, 2006 for unvested awards from prior years related to the Annual Incentive Plan. This additional expense represents \$0.07 per basic common share and \$0.06 per fully diluted common share for the six months ended June 30, 2006. The Company has concluded that the amounts not expensed in prior quarterly and annual periods are immaterial to those financial statements on both a quantitative and qualitative basis. The impact of this adjustment is also immaterial to the estimated results for the year ending December 31, 2006 and accordingly, the adjustment was recorded in the quarter ended June 30, 2006.

Total expense recognized related to all restricted shares was \$3.3 million (including the \$1.7 million discussed above and \$852 thousand related to the retired executive discussed in Note 12) and \$930 thousand for the six months ended June 30, 2006 and 2005, respectively.

RECLASSIFICATIONS

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

3. RENTAL PROPERTIES

The following table summarizes the carrying amounts of rental properties as of June 30, 2006 and December 31, 2005 (in thousands):

	JUNE 30, 2006	DECEMBER 31, 2005
	-----	-----
Buildings and improvements	\$1,118,171	\$1,068,569
Furniture, fixtures & equipment	5,271	5,240
Land	332,436	322,865
	-----	-----

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	1,455,878	1,396,674
Accumulated depreciation	(127,193)	(112,686)
	-----	-----
Total	\$1,328,685	\$1,283,988
	=====	=====

Depreciation expense on rental properties was \$14.2 million and \$12.6 million for the six months ended June 30, 2006 and 2005, respectively.

9

4. UNCONSOLIDATED REAL ESTATE JOINT VENTURES

At June 30, 2006, the Company had a 20% investment interest in each of two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II. The Company accounts for its investment in these joint ventures under the equity method of accounting.

The Company recognized income of \$228 and \$215 (in thousands) from its investment in the Atlantic-EPR I joint venture during the first six months of 2006 and 2005, respectively. The Company also received distributions from Atlantic-EPR I of \$262 and \$251 (in thousands) during the first six months of 2006 and 2005, respectively. Condensed financial information for Atlantic-EPR I is as follows as of and for the six months ended June 30, 2006 and 2005 (in thousands):

	2006	2005
	-----	-----
Rental properties, net	\$29,567	30,211
Cash	141	141
Long-term debt	16,310	16,621
Partners' equity	13,295	13,627
Rental revenue	2,109	2,068
Net income	1,070	1,018

The Company recognized income of \$148 and \$147 (in thousands) from its investment in the Atlantic-EPR II joint venture during the first six months of 2006 and 2005, respectively. The Company also received distributions from Atlantic-EPR II of \$171 and \$176 (in thousands) during the first six months of 2006 and 2005, respectively. Condensed financial information for Atlantic-EPR II is as follows as of and for the six months ended June 30, 2006 and 2005 (in thousands):

	2006	2005
	-----	-----
Rental properties, net	\$23,110	23,572
Cash	103	5
Long-term debt	14,014	14,278
Note payable to Entertainment Properties Trust	117	117
Partners' equity	8,888	9,101
Rental revenue	1,389	1,389

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Net income 645 659

The joint venture agreement for Atlantic-EPR I allows for the Company's partner, Atlantic of Hamburg, Germany (Atlantic), to exchange up to a maximum of 10% of its ownership interest per year in Atlantic-EPR I for common shares of the Company or, at the discretion of the Company, the cash value of those shares as defined in the joint venture agreement. This same provision exists in the Atlantic-EPR II joint venture agreement, except that Atlantic's right to such exchange does not commence until 2007.

5. SHARE INCENTIVE PLAN

The Company maintains a Share Incentive Plan (the Plan) under which an aggregate of 3,000,000 common shares and options to purchase common shares, subject to adjustment in the event of certain capital events, may be granted. At June 30, 2006, there were 1,366,311 shares available for grant under the Plan.

SHARE OPTIONS

Share options granted under the 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 typically become exercisable at a rate of 20% per year over a five-year period. For trustees, share options become exercisable over a one-year period. The

10

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 AVERAGE EXERCISE PRICE
	-----	-----	-----
Outstanding at			
December 31, 2005	890,176	\$14.00 - \$43.75	\$26.52
Exercised	--	--	--
Granted	107,823	40.55 - 42.46	41.86

Outstanding at			
June 30, 2006	997,999	14.00 - 43.75	28.18
	=====		

The weighted average fair value of options granted was \$5.19 and \$3.47 during the six months ended June 30, 2006 and 2005, respectively.

The following table summarizes outstanding options at June 30, 2006:

EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVG. LIFE REMAINING	WEIGHTED AVG. EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (IN THOUSANDS)
-----	-----	-----	-----	-----

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\$14.00 - 19.99	230,811	4.2		
20.00 - 29.99	387,065	6.3		
30.00 - 39.99	147,664	7.8		
40.00 - 43.75	232,459	9.4		
	-----	---		
	997,999	6.8	\$28.18	\$14,842
	=====	===		

The following table summarizes exercisable options at June 30, 2006:

EXERCISE PRICE RANGE	OPTIONS EXERCISABLE	WEIGHTED AVG. LIFE REMAINING	WEIGHTED AVG. EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (IN THOUSANDS)
-----	-----	-----	-----	-----
\$14.00 - 19.99	228,811	4.2		
20.00 - 29.99	228,695	6.2		
30.00 - 39.99	85,512	7.8		
40.00 - 43.75	21,291	8.8		
	-----	---		
	564,309	5.7	\$22.98	\$11,327
	=====	===		

11

RESTRICTED SHARES

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

	NUMBER OF SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	WEIGHTED AVERAGE LIFE REMAINING
	-----	-----	-----
Outstanding at December 31, 2005	140,133	\$35.32	
Granted	83,205	41.36	
Vested	(53,784)	31.49	

Outstanding at June 30, 2006	169,554	39.50	1.75
	=====		

The holders of restricted shares have voting rights and receive dividends from the date of grant. These shares vest ratably over a period of three to five years. At June 30, 2006, unamortized share-based compensation expense related to non-vested restricted shares was \$3.5 million.

6. EARNINGS PER SHARE

The following table summarizes the Company's common shares used for computation

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of basic and diluted earnings per share (in thousands except per share information):

12

	THREE MONTHS ENDED JUNE 30, 2006			SIX MONTHS ENDED JUNE 30, 2006
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)
Basic earnings:				
Income available to common shareholders	\$17,879	26,285	\$ 0.68	\$33,661
Effect of dilutive securities:				
Share options	--	297	(0.01)	--
Non-vested common share grants	--	84	--	--
	-----	-----	-----	-----
Diluted earnings	\$17,879	26,666	\$ 0.67	\$33,661
	=====	=====	=====	=====

	THREE MONTHS ENDED JUNE 30, 2005			SIX MONTHS ENDED JUNE 30, 2005
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)
Basic earnings:				
Income available to common shareholders	\$14,406	24,984	\$ 0.58	\$27,613
Effect of dilutive securities:				
Share options	--	351	(0.01)	--
Non-vested common share grants	--	140	--	--
	-----	-----	-----	-----
Diluted earnings	\$14,406	25,475	\$ 0.57	\$27,613
	=====	=====	=====	=====

7. PROPERTY ACQUISITIONS

On March 30, 2006, the Company acquired, through a wholly-owned subsidiary, two megaplex theatre properties in Garland, Texas and Columbia, Maryland. The Firewheel 18 and Columbia 14 are both operated by AMC and were acquired for a total cost of approximately \$35.0 million. Of this cost, the Company allocated \$14.8 million to the building and \$8.0 million to the land at Firewheel 18. For Columbia 14, the Company allocated \$12.2 million to the building. As Columbia 14 is subject to a third-party ground lease, for which the tenant is responsible, no amount was allocated to land. Both theatres are leased under long-term triple-net leases.

During the three months ended June 30, 2006, the Company completed development of a megaplex theatre property in Garner, North Carolina. The White Oak Village Cinema 14 is operated by Consolidated Theatres and was completed for a total development cost (including land and building) of approximately \$8.2 million. The land was purchased in 2005 by the Company for \$1.3 million. This theatre is leased under a long-term triple-net lease.

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8. INVESTMENT IN MORTGAGE NOTES

On June 1, 2005, a wholly-owned subsidiary of the Company provided a secured mortgage construction loan of \$47 million Canadian (US \$37.5 million) to Metropolis Limited Partnership (the Partnership). The Partnership was formed for the purpose of developing a 13 level entertainment retail center in downtown Toronto, Ontario, Canada. The Partnership consists of the developer of the center as general partner and two limited partner pension funds. It is anticipated that the development will be completed in 2008 at a total cost of approximately \$272 million Canadian, including all capitalized costs, and will contain approximately 360,000 square feet of net rentable area (excluding signage).

13

This mortgage note receivable bears interest at 15% and has a stated maturity of June 2, 2010. The note is senior to all other Partnership debt at June 30, 2006. The Partnership has an agreement with a bank to provide a first mortgage construction loan to the Partnership of up to \$106 million Canadian. The bank construction financing is senior to the Company's mortgage note.

In the original loan agreement, no principal or interest payments were due to the Company prior to November 30, 2007 at which time a 25% principal payment was due along with all accrued interest to date (defined as the "Option Due Date Amount"). The Partnership also had an option on November 30, 2007 (the "Option Date") to either pay off the note in full including all accrued interest, without penalty, or to extend the Option Due Date Amount by an additional 12 months, in which case the Option Date would be November 30, 2008. The Partnership could also prepay the note (in full only, including all accrued interest) at any other time with prepayment penalties as defined in the agreement.

On March 3, 2006, the Company invested an additional \$8.7 million Canadian (U.S. \$7.7 million) in this mortgage note receivable and the original mortgage note was amended and restated. No principal or interest payments on the mortgage note receivable are now due prior to May 31, 2008. In addition, the Option Date was changed to May 31, 2008 and the Partnership's extension right was reduced from 12 months to 6 months such that the outside Option Date remains November 30, 2008. The additional \$8.7 million Canadian bears interest at 15% and has a stated maturity of February 9, 2011. If not paid in full by May 31, 2008, interest is payable monthly beginning in June 2008. The Company received a loan origination fee at closing of \$400,000 Canadian which is being amortized as additional mortgage financing interest income over the term of the loan.

On the maturity date or any other date that the Partnership elects to prepay the note in full, the Company has the option to purchase a 50% equity interest in the Partnership or alternative joint venture vehicle that is established. The purchase price stipulated in the option is based on estimated fair market value of the entertainment retail center at the time of exercise, defined as the then existing stabilized net operating income capitalized at a pre-determined rate. A subscription agreement governs the terms of the cash flow sharing with the other partners should the Company elect to become an owner.

The carrying value of the Company's mortgage note receivable at June 30, 2006 was US \$57.7 million, including related accrued interest receivable of US \$7.7 million. Cost overruns of the project, if any, are the responsibility of the Partnership.

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On June 13, 2006, the Company posted two irrevocable standby letters of credit that totaled \$7.4 million (U.S.) for the benefit of the Partnership's first mortgage construction financing lender. These letters of credit expire on June 13, 2007, but they automatically renew each year unless the Partnership's first mortgage construction lender cancels them or the construction loan is paid off. The Company will accrue interest income on these outstanding letters of credit at a rate of 12% (15% if drawn upon by the construction lender) and the outstanding balance, with accrued interest, will be due from the Partnership on the maturity date of the original mortgage note from the Partnership. The Company has no obligation to fund any additional amounts, and has no guarantees of any kind related to the Partnership's first mortgage construction loan.

Additionally, on March 10, 2006, a wholly-owned subsidiary of the Company provided a secured mortgage loan of \$8.0 million to SNH Development, Inc. The secured property is the Crotched Mountain Ski Resort located in Bennington, New Hampshire. The property serves the Boston and Southern New Hampshire markets and has approximately 45 acres of skiing terrain that is serviced by nine lifts. The carrying value of this mortgage note receivable at June 30, 2006 was \$8.1 million, including related accrued interest receivable of \$62 thousand. This loan is guaranteed by Peak Resorts, Inc., which operates the property, and has a maturity date of March 10, 2027. Monthly interest payments are made to the Company and the unpaid principal balance initially bears interest at 9.25% per annum. Annually, this interest rate increases based on a formula dependent in part on increases in the Consumer Price Index (CPI).

14

9. AMENDMENT AND RESTATEMENT OF CREDIT FACILITY

On January 31, 2006, the Company amended and restated its secured revolving variable rate credit facility to increase the size of the facility to \$200 million from \$150 million and reduce the interest rate charged on the facility from rates ranging from LIBOR plus 175 to 250 basis points to LIBOR plus 130 to 175 basis points. The facility was also converted from a secured to an unsecured facility. The unsecured revolving variable rate credit facility has a three year term expiring in 2009 with a one year extension available at the Company's option. As a result of this amendment and restatement, the Company expensed certain unamortized financing costs, totaling approximately \$673 thousand, in the first quarter of 2006. On June 6, 2006 the size of the facility was increased to \$235 million from \$200 million with no modification to the terms and conditions of the credit agreement.

10. MORTGAGE NOTES PAYABLE

On February 10, 2006, the Company paid off approximately \$109 million in mortgage notes payable that had matured using funds from related debt service escrow deposits, borrowings under the Company's amended and restated unsecured revolving variable rate credit facility and approximately \$44 million in proceeds from the refinancing of two of the theatres originally included as security for those mortgage notes payable. The new mortgage loans bear interest at 5.84%, mature on March 6, 2016 and require monthly principal and interest payments totaling \$279 thousand with a final principal payment at maturity totaling \$33.9 million.

On May 22, 2006, two wholly-owned subsidiaries of the Company obtained non-recourse mortgage loans totaling \$31.0 million. These mortgages are secured by theatre properties located in Hurst, Texas and Mesa, Arizona. The mortgage loans bear interest at 6.3715%, mature on June 1, 2016 and require monthly principal and interest payments totaling \$207 thousand with final principal payments at maturity totaling \$24.4 million. The net proceeds from these loans

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were used to pay down the Company's unsecured line of credit.

11. COMMON SHARE OFFERING

On February 8, 2006, the Company issued 1,000,000 common shares at \$41.25 per share in a registered public offering. The underwriter of this offering subsequently exercised an option to purchase an additional 150,000 common shares at \$41.25 per share which closed on February 15, 2006. Total net proceeds to the Company after expenses were approximately \$46.2 million.

12. EXECUTIVE RETIREMENT

Effective June 30, 2006, an executive of the Company retired. In exchange for a consulting and non-compete agreement with a term of five years, the Company agreed to allow the executive to continue to vest in his unvested share options and restricted shares as of June 30, 2006, in accordance with the original vesting schedules. In accordance with SFAS 123R, the fair values of such unvested awards of \$522 thousand and \$852 thousand, respectively, have been expensed during the quarter ended June 30, 2006. Such amounts are included in general and administrative expense in the accompanying consolidated statements of income.

15

13. COMMITMENTS AND CONTINGENCIES

As of June 30, 2006, the Company had six theatre development projects under construction for which it has agreed to either finance the development costs or purchase the theatre upon completion. The properties are being developed by the prospective tenants. These theatres are expected to have a total of 97 screens and their development costs (including land) are expected to be approximately \$92.0 million. Through June 30, 2006, the Company has invested \$37.8 million in these projects (including land), and has commitments to fund approximately \$54.2 million of additional improvements. Development costs are advanced by the Company either in periodic draws or upon successful completion of construction. If the Company determines that construction is not being completed in accordance with the terms of the development agreement, the Company can, depending on the financing arrangement, either discontinue funding construction draws or refuse to purchase the completed theatre. The Company has agreed to lease the theatres to the operators at pre-determined rates.

16

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 included in this quarterly report on Form 10-Q. The forward-looking statements included in this discussion and elsewhere in this Form 10-Q involve risks and uncertainties, including anticipated financial performance, business prospects, industry trends, shareholder returns, performance of leases by tenants and other matters, which reflect management's best judgment based on factors currently known. 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 Item 1A, "Risk Factors" in our

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annual report on Form 10-K for the year ended December 31, 2005.

OVERVIEW

Our primary business strategy is to purchase real estate (land, buildings and other improvements) that we lease to operators of destination-based entertainment and entertainment-related properties. As of June 30, 2006, we had invested approximately \$1.5 billion (before accumulated depreciation) in 70 megaplex theatre properties and various restaurant, retail and other properties located in 26 states and Ontario, Canada. As of June 30, 2006, we had invested approximately \$27.7 million in development land and construction in progress for real-estate development. Also, as of June 30, 2006, we had invested approximately US \$57.7 million (including accrued interest) in mortgage financing for the development of a new entertainment retail center located in downtown Toronto, Ontario, Canada, and \$8.1 million (including accrued interest) in mortgage financing for the Crotched Mountain Ski Resort located in Bennington, New Hampshire.

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 required to pay common area maintenance charges to reimburse us for their pro rata portion of these costs.

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. We are self-administered and managed by our trustees, executive officers and other employees. Our primary non-cash expense is the depreciation of our properties. We depreciate buildings and improvements on our properties over a five-year to 40-year period for tax purposes and financial reporting purposes.

Our property acquisitions and development financing commitments are financed by cash from operations, borrowings under our unsecured revolving variable rate credit facility, long-term mortgage debt and the sale of 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 on a speculative basis or that are not significantly pre-leased. We have also entered into joint ventures formed to own and lease single properties, and have provided mortgage note financing for a new development in Canada and a ski resort in New Hampshire as described above. We intend to continue entering into some or all of these types of arrangements in the foreseeable future.

Our primary challenges have been locating suitable properties, negotiating favorable lease and financing terms, and managing our portfolio as we have continued to grow. Because of our emphasis on the entertainment sector of the real estate industry and the knowledge and industry relationships of our management, we have enjoyed favorable opportunities to acquire, finance and lease properties. We believe those opportunities will continue during the remainder of 2006.

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CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has made its best estimates and assumptions that affect the reported assets and liabilities. The most significant assumptions and estimates relate to revenue recognition, depreciable lives of the real estate, the valuation of real estate, accounting for real estate acquisitions and estimating reserves for uncollectible receivables. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

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 in other leases is dependent upon increases in the Consumer Price Index (CPI) and accordingly, management does not include any future base rent escalation amounts on these leases in current revenue. Most of our leases provide for percentage rents based upon the level of sales achieved by the tenant. These percentage rents are recognized once the required sales level is achieved. Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants.

Real Estate Useful Lives

We are required to make subjective assessments as to the useful lives of our properties for the purpose of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on our net income. Depreciation and amortization are provided on the straight-line method over the useful lives of the assets, as follows:

Buildings	40 years
Tenant improvements	Base term of lease or useful life, whichever is shorter
Furniture, fixtures and equipment	3 to 7 years

Impairment of Real Estate Values

We are required to make subjective assessments as to whether there are impairments in the value of our rental properties. These estimates of impairment may have a direct impact on our consolidated financial statements.

We apply the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess the carrying value of our rental properties whenever events or changes in circumstances indicate that the carrying amount of a property may not be recoverable. Certain factors that may occur and indicate that impairments may exist include, but are not limited to: underperformance relative to projected future operating results, tenant difficulties and significant adverse industry or market economic trends. No such indicators existed during the first six months of 2006. If an indicator of possible impairment exists, a property is evaluated for impairment by comparing the carrying amount of the property to the estimated undiscounted future cash flows expected to be generated by the property. If the carrying amount of a property exceeds its estimated future cash flows on an undiscounted basis, an impairment charge is recognized in the amount by which the carrying amount of the property exceeds the fair value of the property. Management estimates fair value of our rental properties based on

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projected discounted cash flows using a discount rate determined by management to be commensurate with the risk inherent in the Company. Management did not record any impairment charges in the first six months of 2006.

18

Real Estate Acquisitions

Upon acquisitions of real estate properties, we make subjective estimates of the fair value of acquired tangible assets (consisting of land, building, tenant improvements, and furniture, fixtures and equipment) and identified intangible assets and liabilities (consisting of above and below market leases, in-place leases, tenant relationships and assumed financing that is determined to be above or below market terms) in accordance with Statement of Financial Accounting Standards (SFAS) No.141, Business Combinations. We utilize methods similar to those used by independent appraisers in making these estimates. Based on these estimates, we allocate the purchase price to the applicable assets and liabilities. These estimates have a direct impact on our net income.

Allowance for Doubtful Accounts

Management makes quarterly estimates of the collectibility of its accounts receivable related to base rents, tenant escalations and reimbursements and other revenue or income. Management specifically analyzes tenant receivables, historical bad debts, customer credit worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of its allowance for doubtful accounts. In addition, when tenants are in bankruptcy, management makes estimates of the expected recovery of pre-petition administrative and damage claims. These estimates have a direct impact on our net income.

RECENT DEVELOPMENTS

Following are our significant developments during the six months ended June 30, 2006:

On January 31, 2006, we amended and restated our secured revolving variable rate credit facility to increase the size of the facility to \$200 million from \$150 million and reduce the interest rate charged on the facility from rates ranging from LIBOR plus 175 to 250 basis points to LIBOR plus 130 to 175 basis points. The facility was also converted from a secured to an unsecured facility. The unsecured revolving variable rate credit facility has a three year term expiring in 2009 with a one year extension available at our option. As a result of this amendment and restatement, we expensed certain unamortized financing costs, totaling approximately \$673 thousand, in the first quarter of 2006. On June 6, 2006 the size of the facility was increased to \$235 million from \$200 million with no modification to the terms and conditions of the credit agreement.

On February 8, 2006, we issued 1,000,000 common shares at \$41.25 per share in a registered public offering. The underwriter of this offering subsequently exercised an option to purchase an additional 150,000 common shares at \$41.25 per share which closed on February 15, 2006. Total net proceeds after expenses were approximately \$46.2 million.

On February 10, 2006, we paid off approximately \$109 million in mortgage notes payable that had matured using funds from related debt service escrow deposits, borrowings under our amended and restated unsecured revolving variable rate credit facility and approximately \$44 million in proceeds from the refinancing of two of the theatres originally included as security for those mortgage notes payable. The new mortgage loans bear interest at 5.84%, mature on March 6, 2016

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and require monthly principal and interest payments totaling \$279 thousand with a final principal payment at maturity totaling \$33.9 million.

On March 3, 2006, we invested an additional \$8.7 million Canadian (U.S. \$7.7 million) in the secured mortgage construction loan to Metropolis Limited Partnership (the Partnership) and the original mortgage note was amended and restated. No principal or interest payments on the mortgage note receivable are now due prior to May 31, 2008. In addition, the Option Date was changed to May 31, 2008 and the Partnership's extension right was reduced from 12 months to 6 months such that the outside Option Date remains November 30, 2008. The additional \$8.7 million Canadian bears interest at 15% and has a stated maturity of February 9, 2011. Interest is payable monthly beginning in June 2008. We received a loan origination fee at closing of \$400,000 Canadian which is being amortized as additional mortgage financing interest

19

income over the term of the loan. All other terms of the mortgage note remain unchanged. (For further information, see Note 8 to the consolidated financial statements in this Form 10-Q).

On March 10, 2006, we provided a secured mortgage loan of \$8.0 million to SNH Development, Inc. The secured property is the Crotched Mountain Ski Resort located in Bennington, New Hampshire. The property serves the Boston and Southern New Hampshire markets and has approximately 45 acres of skiing terrain that is serviced by nine lifts. This loan is guaranteed by Peak Resorts, Inc., which operates the property, and has a maturity date of March 10, 2027. Monthly interest payments are made by the borrower and the unpaid principal balance initially bears interest at 9.25% per annum. Annually, this interest rate increases based on a formula dependent in part on increases in CPI.

On March 30, 2006, we acquired two megaplex theatre properties in Garland, Texas and Columbia, Maryland. The Firewheel 18 and Columbia 14 are both operated by AMC and were acquired for a total cost of approximately \$35.0 million. Of this cost, we allocated \$14.8 million to the building and \$8.0 million to the land at Firewheel 18. For Columbia 14, \$12.2 million was allocated to the building. As Columbia 14 is subject to a third-party ground lease, for which the tenant is responsible, no amount was allocated to land. The theatres are leased under long-term triple-net leases.

On May 22, 2006, we obtained two non-recourse mortgage loans totaling \$31.0 million. These mortgages are each secured by one theatre property located in Hurst, Texas and one theatre property in Mesa, Arizona. The mortgage loans bear interest at 6.3715%, mature on June 1, 2016 and require monthly principal and interest payments totaling \$207 thousand with final principal payments at maturity totaling \$24.4 million.

During the three months ended June 30, 2006, we completed development of a megaplex theatre property in Garner, North Carolina. The White Oak Village Cinema 14 is operated by Consolidated Theatres and was completed for a total development cost (including land and building) of approximately \$8.2 million. We purchased the land in 2005 for \$1.3 million. This theatre is leased under a long-term triple-net lease.

On May 5, 2006, we agreed to terminate a ground lease on our Hialeah, Florida theatre, The Grand 18. In conjunction with this termination, the tenant paid us \$4.0 million and we released the tenant from its ground lease obligation, which was a 20-year lease expiring in 2020. The building improvements, which were owned by the tenant, reverted to us in conjunction with the ground lease

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termination. This \$4.0 million termination fee was recorded as rental income and no value was assigned to the improvements. The property was subsequently leased to an unrelated tenant.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THREE MONTHS ENDED JUNE 30, 2005

Rental revenue was \$44.5 million for the three months ended June 30, 2006 compared to \$36.1 million for the three months ended June 30, 2005. The \$8.4 million increase resulted primarily from the property acquisitions and developments completed in 2005 and 2006, base rent increases on existing properties and the recognition of a lease termination fee of \$4.0 million from our theatre in Hialeah, Florida during the three months ended June 30, 2006. No termination fees were recognized during the three months ended June 30, 2005. Percentage rents of \$0.4 million and \$0.5 million were recognized during the three months ended June 30, 2006 and 2005, respectively. Straight line rents of \$0.7 million and \$0.5 million were recognized during the three months ended June 30, 2006 and 2005, respectively. As of June 30, 2006 and 2005, the receivable for straight-line rents was \$6.0 million and \$3.4 million, respectively.

Tenant reimbursements totaled \$3.5 million for the three months ended June 30, 2006 compared to \$3.1 million for the three months ended June 30, 2005. These tenant reimbursements arise from the operations of our retail centers. The \$0.4 million increase is due primarily to increases in tenant reimbursement rates.

20

Other income was \$0.8 million for the three months ended June 30, 2006 compared to \$1.1 million for the three months ended June 30, 2005. The decrease of \$0.3 million relates primarily to development fees of \$0.5 million received in the three months ended June 30, 2005, offset by \$0.3 million of revenues from a restaurant in Southfield, Michigan opened in September 2005, which is operated through a wholly-owned taxable REIT subsidiary.

Mortgage financing interest for the three months ended June 30, 2006 was \$2.4 million compared to \$0.5 million for the three months ended June 30, 2005 and related to interest income from mortgage note financing we provided for an entertainment retail center in Canada and a ski resort in Bennington, New Hampshire in June of 2005 and March of 2006, respectively (described in Note 8 to the consolidated financial statements in this Form 10-Q and in "Recent Developments" above).

Our property operating expense totaled \$4.8 million for the three months ended June 30, 2006 compared to \$3.7 million for the three months ended June 30, 2005. These property operating expenses arise from the operations of our retail centers. The \$1.1 million increase is due primarily to increases in property taxes and other property operating expenses at certain of these properties and the accrual of a \$0.3 million fee for the early termination of a property management agreement covering our retail center in Burbank, California.

Other operating expense totaled \$1.0 million for the three months ended June 30, 2006 compared to \$0.5 million for the three months ended June 30, 2005. The increase of \$0.5 million relates primarily to expenses from a restaurant in Southfield, Michigan opened in September 2005, which is operated through a wholly-owned taxable REIT subsidiary.

Our general and administrative expense totaled \$5.3 million for the three months ended June 30, 2006 compared to \$2.3 million for the three months ended June 30,

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2005. This increase primarily resulted from share-based compensation expense, which we account for in accordance with SFAS 123R, Share Based Payment. During the three months ended June 30, 2006, we changed how we account for restricted stock bonus awards issued pursuant to our Annual Incentive Plan. As further described in Note 2 to the consolidated financial statements in this Form 10-Q, during the three months ended June 30, 2006, we expensed \$1.7 million of unvested restricted stock awards that related to bonus awards from prior years. This adjustment was made because the employees who received the awards could have elected to receive cash instead of restricted shares at the time in which they elected to receive their bonuses in restricted shares. Additionally, as further described in Note 12 to the consolidated financial statements in this Form 10-Q, during the three months ended June 30, 2006, we recognized expense of \$1.4 million related to the retirement of one of our executives. This amount represented the fair value of the executive's unvested share options and restricted shares at his retirement date of June 30, 2006.

Our net interest expense increased by \$1.5 million to \$11.7 million for the three months ended June 30, 2006 from \$10.2 million for the three months ended June 30, 2005. The increase in net interest expense primarily resulted from increases in long-term debt used to finance real estate acquisitions and increases in the interest rates associated with our borrowings under the unsecured revolving variable rate credit facility.

Depreciation and amortization expense totaled \$7.8 million for the three months ended June 30, 2006 compared to \$6.8 million for the same period in 2005. The \$1 million increase resulted primarily from the property acquisitions completed in 2005 and 2006.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Rental revenue was \$83.6 million for the six months ended June 30, 2006 compared to \$70.3 million for the six months ended June 30, 2005. The \$13.3 million increase resulted primarily from the property acquisitions and developments completed in 2005 and 2006, base rent increases on existing properties and the recognition of a lease termination fee of \$4 million from our theatre in Hialeah, Florida during the six months ended June 30, 2006. No termination fees were recognized during the six months ended June 30, 2005. Percentage rents of \$0.9 million and \$1.0 million were recognized during the six months ended June 30, 2006 and 2005, respectively. Straight line rents of \$1.2 million and \$1.0 million were

21

recognized during the six months ended June 30, 2006 and 2005, respectively. As of June 30, 2006 and 2005, the receivable for straight-line rents was \$6.0 million and \$3.4 million, respectively.

Tenant reimbursements totaled \$7.0 million for the six months ended June 30, 2006 compared to \$6.1 million for the six months ended June 30, 2005. These tenant reimbursements arise from the operations of our retail centers. The \$0.9 million increase is due to a \$0.4 million increase from our retail center in Burbank, California which was acquired on March 31, 2005 and the remainder of the increase is due to increases in tenant reimbursement rates.

Other income was \$2.3 million for the six months ended June 30, 2006 compared to \$1.9 million for the six months ended June 30, 2005. The increase of \$0.4 million relates primarily to a restaurant in Southfield, Michigan opened in September 2005, which is operated through a wholly-owned taxable REIT subsidiary and had revenues of \$0.6 million. Additionally, an increase of \$0.4 million relates to the recognition of a gain for the six months ended June 30, 2006

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resulting from an insurance claim. As a result of the hurricane events of October 2005, one non triple-net retail property in Pompano Beach, Florida suffered significant damage to its roof. The insurance company has agreed to reimburse us for the replacement of the roof less our deductible. Partially offsetting these increases, development fees of \$0.5 million were received in the six months ended June 30, 2005 and no development fees were received in the six months ended June 30, 2006.

Mortgage financing interest for the six months ended June 30, 2006 was \$4.2 million compared to \$0.5 million for the six months ended June 30, 2005 and related to interest income from mortgage note financing we provided for an entertainment retail center in Canada and a ski resort in Bennington, New Hampshire in June of 2005 and March of 2006, respectively (described in Note 8 to the consolidated financial statements in this Form 10-Q and in "Recent Developments" above).

Our property operating expense totaled \$9.6 million for the six months ended June 30, 2006 compared to \$7.6 million for the six months ended June 30, 2005. These property operating expenses arise from the operations of our retail centers. The \$2.0 million increase is due to a \$0.6 million increase from our acquisition of the retail center in Burbank, California on March 31, 2005, the accrual of a \$0.3 million fee for the early termination of a property management agreement covering our retail center in Burbank, California, and increases in property taxes and other property operating expenses at certain of these properties.

Other operating expense totaled \$2.0 million for the six months ended June 30, 2006 compared to \$1.2 million for the six months ended June 30, 2005. The increase of \$0.8 million primarily relates to expenses from a restaurant in Southfield, Michigan opened in September 2005, which is operated through a wholly-owned taxable REIT subsidiary.

Our general and administrative expense totaled \$7.8 million for the six months ended June 30, 2006 compared to \$4.0 million for the six months ended June 30, 2005. This increase primarily resulted from share-based compensation expense, which we account for in accordance with SFAS 123R, Share Based Payment. During the three months ended June 30, 2006, we changed how we account for restricted stock bonus awards issued pursuant to our Annual Incentive Plan. As further described in Note 2 to the consolidated financial statements in this Form 10-Q, during the three months ended June 30, 2006, we expensed \$1.7 million of unvested restricted stock awards that related to bonus awards from prior years. This adjustment was made because the employees who received the awards could have elected to receive cash instead of restricted shares at the time in which they elected to receive their bonuses in restricted shares. Additionally, as further described in Note 12 to the consolidated financial statements in this Form 10-Q, during the three months ended June 30, 2006, we recognized an expense of \$1.4 million related to the retirement of one of our executives. This amount represented the fair value of the executive's unvested share options and restricted shares at his retirement date of June 30, 2006. The remainder of the increase is due primarily to payroll and related expenses attributable to increases in base compensation, additional employees, certain employee benefits, grants of restricted shares to management and payroll taxes related to the vesting of restricted shares.

Costs associated with loan refinancing for the six months ended June 30, 2006 were \$673 thousand. These costs related to the amendment and restatement of our revolving variable rate credit facility and consisted of the write-off of \$673

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thousand of certain unamortized financing costs. No such costs were incurred during the six months ended June 30, 2005.

Our net interest expense increased by \$3.2 million to \$23.0 million for the six months ended June 30, 2006 from \$19.8 million for the six months ended June 30, 2005. The increase in net interest expense primarily resulted from increases in long-term debt used to finance real estate acquisitions and increases in the interest rates associated with our borrowings under the unsecured revolving variable rate credit facility.

Depreciation and amortization expense totaled \$15.3 million for the six months ended June 30, 2006 compared to \$13.4 million for the same period in 2005. The \$1.9 million increase resulted primarily from the property acquisitions completed in 2005 and 2006.

The gain on sale of land of \$0.3 million for the six months ended June 30, 2006 was due to the sale of an acre of land that was originally purchased along with one of our megaplex theatres. There was no gain on sale of land recognized for the six months ended June 30, 2005.

Preferred dividend requirements for the six months ended June 30, 2006 were \$5.8 million compared to \$5.5 million for the same period in 2005. The \$0.3 million increase is due to the issuance of 3.2 million Series B preferred shares in January of 2005.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$7.5 million at June 30, 2006. In addition, we had restricted cash of \$4.7 million at June 30, 2006 required in connection with debt service, payment of real estate taxes and capital improvements.

Mortgage Debt and Credit Facilities

As of June 30, 2006, we had total debt outstanding of \$733.3 million. As of June 30, 2006, \$613.8 million of debt outstanding was fixed rate mortgage debt secured by a substantial portion of our rental properties, with a weighted average interest rate of approximately 6.05%.

At June 30, 2006, we had \$119.5 million in debt outstanding under our \$235.0 million unsecured revolving variable rate credit facility, with interest at a floating rate. The credit facility matures in January of 2009.

Our principal investing activity is the purchase and development of rental property, which has generally been financed with mortgage debt and the proceeds from equity offerings. Our unsecured revolving variable rate credit facility is also used to finance the acquisition or development of properties. Continued growth of our rental property portfolio will depend in part on our continued ability to access funds through additional borrowings and equity security offerings.

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. Cash provided by operating activities was \$54.9 million for the six months ended June 30, 2006 and \$45.9 million for the six months ended June 30, 2005. We anticipate that our cash on hand, cash from operations, and funds available under our unsecured revolving variable rate 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 avoidance of corporate level federal income or excise tax in accordance with

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Internal Revenue Code requirements for qualification as a REIT.

23

We had six theatre projects under construction at June 30, 2006. The properties are being developed by and have been pre-leased to the prospective tenants under long-term triple-net leases. The cost of development is paid by us either in periodic draws or upon successful completion of construction. The related timing and amount of rental payments to be received by us from tenants under the leases correspond to the timing and amount of funding by us of the cost of development. These theatres will have a total of 97 screens and their total development costs (including land) will be approximately \$92.0 million. Through June 30, 2006, we have invested \$37.8 million in these projects (including land), and have commitments to fund an additional \$54.2 million in improvements. We plan to fund development primarily with funds generated by debt financing and/or equity offerings. If we determine that construction is not being completed in accordance with the terms of the development agreement, we can discontinue funding construction draws or refuse to purchase the completed theatre.

As further described in Note 11 to the consolidated financial statements in this Form 10-Q, we completed an offering of common shares in February 2006, generating net proceeds (after expenses) of \$46.2 million. We used proceeds from this offering to reduce borrowings under the Company's unsecured revolving variable rate credit facility and for other corporate purposes.

Off Balance Sheet Arrangements

At June 30, 2006, we had a 20% investment interest in two unconsolidated real estate joint ventures, Atlantic-EPR I and Atlantic-EPR II, which are accounted for under the equity method of accounting. We do not anticipate any material impact on our liquidity as a result of any commitments that may arise involving those joint ventures. We recognized income of \$228 and \$215 (in thousands) from our investment in the Atlantic-EPR I joint venture during the six months ended June 30, 2006 and 2005, respectively. We also recognized income of \$148 and \$147 (in thousands) from our investment in the Atlantic-EPR II joint venture during the six months ended June 30, 2006 and 2005, respectively. Condensed financial information for the Atlantic-EPR I and Atlantic-EPR II joint ventures is included in Note 4 to the consolidated financial statements included as part of this Form 10-Q.

The joint venture agreement for Atlantic-EPR I allows our partner, Atlantic of Hamburg, Germany (Atlantic), to exchange up to a maximum of 10% of its ownership interest per year in Atlantic-EPR I for our common shares or, at our discretion, the cash value of those shares as defined in the joint venture agreement. This same provision exists in the Atlantic-EPR II joint venture agreement, except that Atlantic's right to such exchange does not commence until 2007.

24

FUNDS FROM OPERATIONS (FFO)

The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance and liquidity of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is a widely used measure of the operating performance of real estate companies and is provided

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here as a supplemental measure to Generally Accepted Accounting Principles (GAAP) net income available to common shareholders and earnings per share. FFO, as defined under the revised NAREIT definition and presented by us, is net income available to common shareholders, computed in accordance with GAAP, excluding gains and losses from sales of depreciable operating properties, 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. 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.

The following tables summarize our FFO for the three and six month periods ended June 30, 2006 and 2005 (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
Net income available to common shareholders	\$17,879	\$14,406	\$33,661	\$27,613
Add: Real estate depreciation and amortization	7,602	6,751	14,898	13,212
Add: Allocated share of joint venture depreciation	61	61	121	120
	-----	-----	-----	-----
FFO available to common shareholders	25,542	21,218	48,680	40,945
	=====	=====	=====	=====
FFO per common share:				
Basic	\$ 0.97	0.85	\$ 1.87	\$ 1.64
Diluted	0.96	0.83	1.85	1.61
Shares used for computation (in thousands):				
Basic	26,285	24,984	25,989	24,949
Diluted	26,666	25,475	26,380	25,429
Other financial information:				
Straight-lined rental revenue	\$ 661	\$ 533	\$ 1,153	\$ 1,045

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners Have Certain Rights, became effective in June 2005 for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified. For general partners in all other limited partnerships, this guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 31, 2005. We adopted EITF 04-5 in 2005. The implementation of EITF 04-5 did not have any effect on our financial statements for the six months ended June 30, 2006.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, Accounting for Income Taxes, and it prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for us on January 1, 2007. The adoption

of FIN 48 is not expected to have any material impact on our financial statements.

FORWARD LOOKING INFORMATION

Cautionary statement regarding forward-looking information

With the exception of historical information, this quarterly report on Form 10-Q contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 and identified by such words as "will be," "intend," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," or other comparable terms. Our actual financial condition, results of operations or business may vary materially from those contemplated by such forward-looking statements and involve various risks and uncertainties, including but not limited to those discussed under Item 1A, "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2005. Investors are cautioned not to place undue reliance on any forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, primarily relating to potential losses due to changes in interest rates. 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 \$235 million unsecured revolving line of credit that bears interest at a floating rate that we use to acquire properties and finance our development commitments.

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 acquire additional properties may be limited.

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 that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure 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, to allow timely decisions regarding required disclosure.

In addition, there were no changes in our internal control over financial reporting during our second fiscal quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than routine litigation and administrative proceedings arising in the ordinary course of business, we are not presently involved in any litigation nor, to our knowledge, is any litigation threatened against us or our properties which is reasonably likely to have a material adverse effect on our liquidity or results of operations.

26

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, 2005.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

27

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2006, the Company held its annual meeting of shareholders. The matters presented to the shareholders for vote and the vote on such matters were as follows:

1. To elect two Class III trustees for a three year term.

	FOR	AUTHORITY WITHHELD
	-----	-----
Morgan G. Earnest II	24,812,866	404,658
James A. Olson	24,916,607	300,917

2. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2006.

FOR	AGAINST	ABSTAIN
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24,771,491	435,306	10,727

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ITEM 5. OTHER INFORMATION

RETIREMENT BY FRED KENNON

Effective June 30, 2006, Fred L. Kennon retired as Vice President, Chief Financial Officer and Treasurer of the Company. On August 1, 2006, the Company and Mr. Kennon entered into an agreement, effective June 30, 2006, whereby Mr. Kennon agreed to provide services and be bound by a covenant not to compete with a term of five years, and the Company agreed to allow the executive to continue to vest in his unvested share options and restricted shares as of June 30, 2006, in accordance with the original vesting schedules.

EMPLOYMENT AGREEMENT WITH MICHAEL HIRONS

On May 1, 2006 Mr. Michael L. Hirons joined the Company as Vice President, Finance. On August 2, 2006, the Company entered into an employment agreement with Mr. Hirons for a term of eighteen months, with automatic one-year extensions on each anniversary date. The employment agreement generally provides for:

- an original annual base salary of \$145,000, subject to any increases awarded by the compensation committee,
- awards pursuant to an annual incentive program in amounts established by the compensation committee if performance criteria adopted by the compensation committee are achieved, and
- severance compensation equal to his base salary and awards under the annual incentive program times 1.5 upon termination by the Company without cause or termination by Mr. Hirons for good reason or after a change of control of the Company.

ITEM 6. EXHIBITS

10.1 Agreement with Fred L. Kennon

10.2 Agreement with Michael L. Hirons

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act

32 Certifications furnished pursuant to Section 906 of the Sarbanes-Oxley Act.

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: August 1, 2006

By /s/ David M. Brain

David M. Brain, President -
Chief Executive Officer and Trustee

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Dated: August 1, 2006

By /s/ Mark A. Peterson

Mark A. Peterson, Vice President -
Chief Financial Officer

28