



FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2010, 2009, and 2008

(With Independent Auditors' Report Thereon)

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Feldman Mall Properties, Inc.:

We have audited the accompanying consolidated balance sheets of Feldman Mall Properties, Inc. and subsidiaries (the Company or FMP) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' deficit and comprehensive (loss) income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feldman Mall Properties, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 (o) to the consolidated financial statements, effective January 1, 2009, the Company changed its method of accounting for noncontrolling interests.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company's financial results have been materially impacted by various business conditions that resulted in declines in property operating income, impairments of the Company's real estate properties and investments, and the inability to repay, extend, or refinance certain loan balances as they became due. These conditions also resulted in sales and other transactions related to the Company's properties and investments during and subsequent to the three-year period ended December 31, 2010. As of December 31, 2010, the Company has a stockholders' deficit of \$130,496,208. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters, which could include bankruptcy, are also described in note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP

January 6, 2012

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2010 and 2009

(Amounts in thousands, except share data)

| Assets | 2010 | 2009 |
|--|-------------|-------------|
| Investments in real estate, net | \$ 59,114 | 77,206 |
| Cash and cash equivalents | 535 | 1,343 |
| Restricted cash | 3,106 | 6,217 |
| Rents, deferred rents, and other receivables, net | 2,000 | 2,314 |
| Acquired lease rights, net | 544 | 914 |
| Acquired in-place lease values, net | 254 | 911 |
| Deferred charges, net | 1,718 | 1,915 |
| Other assets, net | 371 | 951 |
| Total assets | \$ 67,642 | 91,771 |
| Liabilities and Stockholders' Deficit | | |
| Liabilities: | | |
| Mortgage loans payable | \$ 179,271 | 181,231 |
| Secured line of credit | — | 26,552 |
| Accounts payable, accrued expenses, and other liabilities | 9,354 | 14,566 |
| Dividends payable | 9,430 | 6,005 |
| Acquired lease obligations, net | 83 | 237 |
| Negative carrying value of investment in unconsolidated partnership | — | 5,232 |
| Total liabilities | 198,138 | 233,823 |
| Stockholders' deficit: | | |
| Series A 6.85% cumulative convertible preferred stock. Authorized, 50,000,000 shares; issued and outstanding, 2,000,000 shares at December 31, 2010 and 2009; \$25 liquidation preference | 49,580 | 49,580 |
| Common stock, \$0.01 par value. Authorized, 200,000,000 shares; issued and outstanding, 14,292,537 at December 31, 2010 and 2009 | 144 | 144 |
| Additional paid-in capital | 120,804 | 120,696 |
| Accumulated deficit – FMP | (301,024) | (309,140) |
| Accumulated other comprehensive loss | — | (3,147) |
| Total stockholders' deficit – FMP | (130,496) | (141,867) |
| Noncontrolling interests in operating partnership | — | (185) |
| Total stockholders' deficit | (130,496) | (142,052) |
| Total liabilities and stockholders' deficit | \$ 67,642 | 91,771 |

See accompanying notes to consolidated financial statements.

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2010, 2009, and 2008

(Amounts in thousands, except per share data)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|------------------|-----------------|------------------|
| Revenue: | | | |
| Rental | \$ 16,190 | 16,828 | 16,971 |
| Tenant reimbursements | 7,000 | 7,917 | 9,638 |
| Management, leasing, and development services | 77 | 592 | 2,374 |
| Interest and other income | 767 | 238 | 1,724 |
| Total revenue | <u>24,034</u> | <u>25,575</u> | <u>30,707</u> |
| Expenses: | | | |
| Rental, property operating, and maintenance | 8,787 | 8,662 | 9,943 |
| Real estate taxes | 3,964 | 3,451 | 4,449 |
| Interest (including amortization of deferred financing costs) | 9,454 | 12,125 | 13,235 |
| Impairment loss on long-lived assets (note 2) | — | 36,638 | 145,323 |
| Depreciation and amortization | 3,631 | 4,768 | 10,955 |
| Bad debt expense | 890 | 1,088 | 929 |
| General and administrative | 3,210 | 5,213 | 13,560 |
| Total expenses | <u>29,936</u> | <u>71,945</u> | <u>198,394</u> |
| Loss from continuing operations before equity in losses of unconsolidated real estate partnerships, gain on sale of investments in unconsolidated real estate partnerships, gain on extinguishment of debt, impairment losses on investment in unconsolidated real estate partnerships, and impairment loss on trust preferred securities | (5,902) | (46,370) | (167,687) |
| Equity in losses of unconsolidated real estate partnerships | — | — | (8,389) |
| Gain on sale of investments in unconsolidated real estate partnerships | 7,228 | 4,645 | — |
| Gain on extinguishment of debt | — | 28,526 | — |
| Impairment loss on investment in unconsolidated real estate partnerships – Harrisburg Mall and Colonie Center (note 15) | — | — | (47,929) |
| Impairment loss on trust preferred securities | — | — | (880) |
| Income (loss) from continuing operations | <u>1,326</u> | <u>(13,199)</u> | <u>(224,885)</u> |
| Discontinued operations (note 16): | | | |
| Income (loss) from operations | 607 | (570) | (1,167) |
| Impairment loss on long-lived assets | — | — | (66,630) |
| Gain on sale of real estate | — | 870 | — |
| Gain on extinguishment of debt | 9,782 | — | 20,199 |
| Income (loss) from discontinued operations | <u>10,389</u> | <u>300</u> | <u>(47,598)</u> |
| Net income (loss) | 11,715 | (12,899) | (272,483) |
| (Income) loss attributable to noncontrolling interests: | | | |
| Noncontrolling interests in operating partnership | (175) | 1,122 | 9,677 |
| Net income (loss) attributable to FMP | <u>\$ 11,540</u> | <u>(11,777)</u> | <u>(262,806)</u> |
| Basic income (loss) earnings per share: | | | |
| Continuing operations | \$ (0.15) | (1.13) | (17.06) |
| Discontinued operations | 0.70 | 0.02 | (3.56) |
| | <u>\$ 0.55</u> | <u>(1.11)</u> | <u>(20.62)</u> |
| Diluted income (loss) earnings per share: | | | |
| Continuing operations | \$ (0.15) | (1.13) | (17.06) |
| Discontinued operations | 0.70 | 0.02 | (3.56) |
| | <u>\$ 0.55</u> | <u>(1.11)</u> | <u>(20.62)</u> |
| Weighted average common shares outstanding: | | | |
| Basic | 14,288 | 13,738 | 12,909 |
| Diluted | 14,520 | 13,738 | 12,909 |

See accompanying notes to consolidated financial statements.

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Deficit and Comprehensive (Loss) Income

Years ended December 31, 2010, 2009, and 2008

(Amounts in thousands, except share data)

| | Number of common shares | Series A preferred stock | Common stock | Additional paid-in capital | Accumulated deficit – FMP | Accumulated other comprehensive loss | Total stockholders' deficit – FMP | Noncontrolling interests in operating partnership | Total stockholders' deficit | Comprehensive (loss) income |
|---|-------------------------------|--------------------------------|-----------------|----------------------------------|------------------------------|---|---|--|-----------------------------------|--------------------------------|
| Balance at December 31, 2007 | 13,018,831 | \$ 49,580 | 130 | 120,542 | (27,712) | (3,661) | 138,879 | 9,677 | 148,556 | — |
| Net loss | — | — | — | — | (262,806) | — | (262,806) | (9,677) | (272,483) | (272,483) |
| Unrealized loss on derivative instruments, net of \$3,217 recorded in interest | — | — | — | — | — | (1,541) | (1,541) | — | (1,541) | (1,541) |
| Restricted stock forfeited | (26,294) | — | — | — | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | 618 | — | — | 618 | — | 618 | — |
| Preferred dividends | — | — | — | — | (3,435) | — | (3,435) | — | (3,435) | — |
| Dividends on forfeited nonvested stock | — | — | — | — | 13 | — | 13 | — | 13 | — |
| Balance at December 31, 2008 | 12,992,537 | 49,580 | 130 | 121,160 | (293,940) | (5,202) | (128,272) | — | (128,272) | \$ (274,024) |
| Net loss | — | — | — | — | (11,777) | — | (11,777) | (1,122) | (12,899) | \$ (12,899) |
| Unrealized gain on derivative instruments, net of \$4,955 recorded in interest | — | — | — | — | — | 2,055 | 2,055 | — | 2,055 | 2,055 |
| Share-based compensation expense | — | — | — | 443 | — | — | 443 | — | 443 | — |
| Preferred dividends | — | — | — | — | (3,423) | — | (3,423) | — | (3,423) | — |
| Deferred compensation plan and stock awards | 100,000 | — | 1 | 13 | — | — | 14 | — | 14 | — |
| Shares issued in connection with extinguishment of debt | 1,200,000 | — | 13 | 167 | — | — | 180 | — | 180 | — |
| Purchase of operating partnership (OP) units | — | — | — | (1,087) | — | — | (1,087) | 937 | (150) | — |
| Balance at December 31, 2009 | 14,292,537 | 49,580 | 144 | 120,696 | (309,140) | (3,147) | (141,867) | (185) | (142,052) | \$ (10,844) |
| Net income | — | — | — | — | 11,540 | — | 11,540 | 175 | 11,715 | \$ 11,715 |
| Unrealized gain on derivative instruments, net of \$4,080 recorded in interest | — | — | — | — | — | 3,147 | 3,147 | — | 3,147 | 3,147 |
| Preferred dividends | — | — | — | — | (3,424) | — | (3,424) | — | (3,424) | — |
| Deferred compensation plan and stock awards | — | — | — | 118 | — | — | 118 | — | 118 | — |
| Purchase of operating partnership (OP) units | — | — | — | (10) | — | — | (10) | 10 | — | — |
| Balance at December 31, 2010 | 14,292,537 | \$ 49,580 | 144 | 120,804 | (301,024) | — | (130,496) | — | (130,496) | \$ 14,862 |

See accompanying notes to consolidated financial statements.

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2010, 2009, and 2008

(Amounts in thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|-----------------|
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 11,715 | (12,899) | (272,483) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Impairment loss on long-lived assets | — | 36,638 | 145,323 |
| Impairment loss on investment in unconsolidated real estate partnerships | — | — | 47,929 |
| Impairment loss on trust preferred securities | — | — | 880 |
| Impairment loss on discontinued operations | — | — | 66,630 |
| Gain on sale of investments in unconsolidated real estate partnerships | (7,228) | (4,645) | — |
| Gain on sale of real estate | — | (870) | — |
| Gain on extinguishment of debt | (9,782) | (28,526) | (20,199) |
| Depreciation and amortization | 3,989 | 5,665 | 14,836 |
| Amortization of deferred financing costs | 163 | 849 | 970 |
| Provision for doubtful accounts receivable | 836 | 1,176 | 2,021 |
| Amortization of ground rent | — | — | 289 |
| Noncash stock compensation | 118 | 456 | 618 |
| Interest accretion, net | (978) | (1,351) | (2,848) |
| Equity in losses of unconsolidated real estate partnerships | — | — | 8,389 |
| Deferred tax expense | — | — | 34 |
| Other noncash income | — | — | (113) |
| Net change in revenue related to acquired lease obligations | 221 | 279 | 539 |
| Changes in operating assets and liabilities: | | | |
| Restricted cash related to operating activities | 1,210 | 1,273 | (555) |
| Rents, deferred rents, and other receivables | (402) | (425) | (74) |
| Other deferred charges | (434) | (664) | (752) |
| Other assets, net | 127 | (239) | 2,239 |
| Accounts payable, accrued expenses, and other liabilities | 802 | (1,992) | (4,009) |
| Net cash provided by (used in) operating activities | <u>357</u> | <u>(5,275)</u> | <u>(10,336)</u> |
| Cash flows from investing activities: | | | |
| Distribution from (investment in) unconsolidated real estate partnerships | — | 888 | (16,730) |
| Proceeds from the disposition of real estate, net | 1,500 | 5,189 | — |
| Expenditures for real estate improvements | (3,556) | (4,593) | (10,934) |
| Change in restricted cash relating to investing activities | 1,896 | 5,703 | 3,916 |
| Net cash provided by (used in) investing activities | <u>(160)</u> | <u>7,187</u> | <u>(23,748)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from lines of credit | — | — | 10,252 |
| Repayment of lines of credit | — | (1,200) | — |
| Repayment of mortgages | (2,233) | (1,237) | (1,584) |
| Payment to execute debt extinguishment | — | (1,500) | — |
| Cash from incremental tax financing | 1,242 | 1,406 | 996 |
| Purchase of operating partnership units | (14) | (150) | — |
| Payment of deferred financing costs | — | (22) | — |
| Distributions and dividends | — | — | (1,422) |
| Net cash (used in) provided by financing activities | <u>(1,005)</u> | <u>(2,703)</u> | <u>8,242</u> |
| Net change in cash and cash equivalents | (808) | (791) | (25,842) |
| Cash and cash equivalents, beginning of year | 1,343 | 2,134 | 27,976 |
| Cash and cash equivalents, end of year | \$ <u>535</u> | <u>1,343</u> | <u>2,134</u> |

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2010, 2009, and 2008

(Amounts in thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|-------------|
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest, net of amounts capitalized | \$ 10,541 | 14,682 | 18,198 |
| Supplemental disclosures of noncash investing and financing activities: | | | |
| Unrealized gain (loss) on derivative instruments | \$ 3,147 | 2,055 | (1,541) |
| Dividends payable | 3,424 | 3,423 | 2,580 |
| Accrued capital expenditures | 265 | 1,322 | 5,775 |
| Noncontrolling interest basis of purchased operating units | 10 | 937 | — |
| Foreclosure transactions – GTM (2010), Tallahassee (2008): | | | |
| Assets on foreclosure date, net | \$ 16,346 | — | 28,857 |
| Liabilities on foreclosure date, net | 26,128 | — | 46,618 |

See accompanying notes to consolidated financial statements.

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010, 2009, and 2008

(Dollar amounts in thousands, except share and per share data)

(1) Organization and Description of Business

Feldman Equities of Arizona, LLC (our predecessor) was organized under the laws of the State of Arizona and commenced operations on April 1, 2002. Feldman Mall Properties, Inc. (FMP, the Company, we, our, or us) closed an initial public offering of common stock on December 16, 2004 (our offering). Through our affiliates and subsidiaries, we were principally engaged in the acquisition and management of retail malls. Tenants include national and regional retail chains as well as local retailers.

During and subsequent to the three-year period ended December 31, 2010, the Company executed transactions that sold or transferred control of its wholly owned and joint venture properties to other parties as further described herein. As of December 31, 2010, the only remaining mall property we own and control is the Stratford Square Mall in Bloomingdale, Illinois (Stratford) and two parcels of vacant land in Cincinnati, Ohio. As further discussed below, Stratford was sold in November 2011.

We have elected to be taxed as a Real Estate Investment Trust, or REIT, and we have qualified and we believe will continue to qualify as a REIT under applicable regulations. Our wholly owned subsidiaries, Feldman Holdings Business Trust I and Feldman Holdings Business Trust II, are the sole general partner and limited partner, respectively, in, and collectively own 100.0% and 98.4% of Feldman Equities Operating Partnership, LP (the operating partnership), as of December 31, 2010 and 2009, respectively. We consolidate the assets and liabilities of the operating partnership.

(a) *Going-Concern Considerations*

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern, which assumes the realization of assets and settlement of liabilities in the normal course of business for a reasonable period of time. Our operating results along with certain conditions and transactions, as further described below, raise substantial doubt about our ability to continue as a going concern.

At December 31, 2010, we had a stockholders' deficit of \$130,496 and the nonrecourse debt obligations secured by our real estate investments exceed the carrying value of the properties by \$121,751.

Our financial results have been materially impacted by the unfavorable business environment for retailers and other factors, which resulted in slower than anticipated lease-up activities, vacancies, bankruptcies of certain tenants, and other unfavorable conditions in the real estate financing markets. As a result of these and other conditions, we have recorded impairment and other losses. These conditions also resulted in foreclosures, sales, and other transactions of our properties and investments. Subsequent to the November 2011 sale of Stratford, as discussed further below, the only remaining properties we own or control are two parcels of vacant land with a book value of \$1,594 at December 31, 2010. The Company continues to be engaged in exploring business opportunities including raising additional capital or sale of the Company. The current economic and business environment makes the achievement of any such transaction especially difficult. The Company may be required to pursue other alternatives, which may include bankruptcy.

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010, 2009, and 2008

(Dollar amounts in thousands, except share and per share data)

(b) Property Summary

The following summarizes activity related to Stratford and other previously wholly owned mall investments:

Golden Triangle Mall (GTM)

At December 31, 2009, the \$26,552 balance outstanding under our line of credit, secured by GTM, was past due its stated maturity date. We were unable to repay, amend, or refinance this obligation and the lender foreclosed and took possession of the property on July 6, 2010. As a result of the foreclosure transaction, the Company surrendered all benefits and was relieved of all obligations related to the property including the outstanding borrowings under the line of credit. The Company has accounted for the 2010 foreclosure transaction by removing the GTM investment in real estate (\$16,139 at December 31, 2009) and other property related balances as well as the line of credit obligations and recognized a net gain on the extinguishment of debt in the amount of \$9,782 in the accompanying consolidated statements of operations. As further discussed in note 16, all operating results of GTM prior to July 6, 2010 have been reflected as discontinued operations in the accompanying consolidated financial statements.

Northgate Mall (Northgate)

During 2009 and 2010, we were not in compliance with the terms of the mortgage loan payable, secured by Northgate. As a result, on February 4, 2010, Wells Fargo Bank, N.A., as trustee (the Lender), notified the Company's subsidiary, FMP Northgate LLC, a Delaware limited liability company (FMP Northgate), that it was in default of various covenants contained in the documents evidencing and securing a certain \$82,000 loan made by the Lender to FMP Northgate. Consequently, the Lender demanded immediate repayment of the principal balance of the loan, along with interest and related fees. The Lender commenced foreclosure proceedings and a receiver was appointed and took control of the property. Upon appointment of the receiver, Northgate surrendered its rights to the property operations and cash flows but still holds title to the property and remains liable for the mortgage loan payable and other obligations until a foreclosure sale occurs. Accordingly, the Northgate real estate investment and related mortgage loan payable and other obligations continue to be included in the accompanying balance sheets at December 31, 2010.

Effective February 16, 2010, the receiver, Douglas Wilson Companies (the Receiver), and the Company's subsidiary, Feldman Equity Management LLC (FEMLLC), entered into a Management Agreement, pursuant to which FEMLLC would provide professional real estate management services to the Receiver in connection with its operation of Northgate. The terms are substantially the same as those between FMP Northgate and FEMLLC prior to the appointment of the Receiver. The order appointing the Receiver contains broad powers in favor of the Receiver, allowing it to operate and control Northgate. Pursuant to the order, FMP Northgate has neither possession nor control of, nor any right to any of the income derived from Northgate. The order appointing the Receiver indicated it to be a limited receivership for the purpose of maintaining the uninterrupted operation of Northgate and to market and sell the property. After appointment, the Receiver took immediate possession and control over Northgate, including all tangible and intangible property used in connection therewith, all income, refunds, reimbursement rights, fixtures, trade fixtures, tenant

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(Dollar amounts in thousands, except share and per share data)

improvements, all permits, licenses and contracts, tradenames and trademarks of FMP Northgate, books, records, accounts, and documents relating to Northgate, and all other property, estate, right, title, and interest described in the mortgage loan payable agreement.

On August 12, 2010, the Lender filed an Entry of Default Judgment and Decree of Foreclosure, and a Judgment and Decree of Foreclosure was issued on August 20, 2010. Beginning in May 2011, the Receiver, at the direction of the Lender, commenced the process of identifying potential buyers of Northgate. On June 10, 2009, one land parcel not included in the receivership (or any subsequent foreclosure sale) was transferred in ownership from FMP Northgate to the Company's subsidiary, Ohio River Valley LLC (ORV). The Company's investment in real estate balance related to parcels as of December 31, 2010 and 2009 was \$1,594 and \$1,536, respectively.

The Company continues to report the results of Northgate in its consolidated financial statements as the terms of the receivership do not allow the Company to derecognize the property and related mortgage loan payable. Upon transfer of title of the property to another owner, the Company will derecognize the property from its consolidated balance sheets and at that time it is expected that Northgate will become legally released from the mortgage loan payable obligation, which will allow the Company to derecognize the mortgage loan payable and result in the Company recording a non-cash gain upon extinguishment of debt as the contractual outstanding principal balance of debt exceeds the property's carrying value. The Company's Northgate investment in real estate and related mortgage loan payable was \$20,031 and \$73,752, respectively, at December 31, 2010.

Tallahassee Mall (Tallahassee)

During 2008, we were unable to obtain modifications to the mortgage loan payable secured by Tallahassee, and in November 2008 consented to a court-appointed receiver to operate the mall on behalf of the lender. In exchange for the release from the lender of our mortgage loan payable and other obligations, we surrendered our rights to all economic benefits related to Tallahassee. The Company accounted for this 2008 transaction by removing the Tallahassee investment in real estate and other property related balances from our books, as well as our mortgage loan payable obligation, and recognized a net gain on the extinguishment of debt of \$20,199. As further discussed in note 16, all 2008 operating results of Tallahassee have been reflected as discontinued operations in the accompanying consolidated financial statements.

Stratford Square Mall (Stratford)

The \$104,500 mortgage loan payable, secured by Stratford, was originally due on May 9, 2010. The Company executed its extension option, which extended the maturity of this mortgage loan payable to May 9, 2012. We do not have the ability to repay this loan and therefore have decided to sell the property.

On November 10, 2011, the Company's subsidiary, FMP Stratford LLC (FMP Stratford), completed the sale of Stratford to FMC Stratford Mall Members LLC (Purchaser). Consideration consisted of cash of approximately \$2,000 (before refunds and certain additional settlement costs) and the assumption by the Purchaser of the existing outstanding mortgage loan payable of \$104,500. Affiliates of the Purchaser were holders of approximately \$34,000 of the \$104,500 mortgage loan

FELDMAN MALL PROPERTIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010, 2009, and 2008

(Dollar amounts in thousands, except share and per share data)

payable. The Company's investment in real estate balance for Stratford at December 31, 2010 as reflected in the accompanying consolidated balance sheet is \$37,489. As a result of the closing of the transaction in 2011, the Company has no further obligation with respect to the mortgage loan payable and recorded a non-cash gain of approximately \$70 million.

(2) Summary of Significant Accounting Policies

(a) *Impairment of Long-Lived Assets*

In accordance with accounting guidance for the impairment of long-lived assets and for long-lived assets to be disposed of, wholly owned investment properties are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of the investment properties may not be recoverable. A property to be held and used is considered impaired only if our estimate of the aggregate future cash flows, less estimated capital expenditures, to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition, and other factors. The determination of undiscounted cash flows requires significant estimates by us, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in the anticipated action to be taken with respect to the property could impact our results of operations. The expected cash flows of a property are dependent on estimates and other factors, which are subject to change, including (1) changes in the national, regional, and/or local economic climates, (2) competition from other retail centers, (3) increases in operating costs, (4) bankruptcy and/or other changes in the condition of third parties, including anchors and other tenants, and (5) expected holding period. These factors could cause our expected future cash flows to change, and, to the extent impairments have occurred, the excess carrying value of the long-lived assets of the property over its estimated fair value is charged against operations.

Management's methodology for estimating the properties' fair value includes estimating the respective property's current and projected operating cash flows, performing market research on capitalization rates and discount rates for similar properties, which included discussions with brokers, and preparing sensitivity analyses on the valuation models prepared. The fair value measurements are considered Level 3 measurements (note 2(k)) in the fair value hierarchy, which uses significant, unobservable inputs. Real estate property owned by the Company is generally valued based on an analysis that includes at least 10 years of projected discounted cash flows (DCF), which include assumptions over projected revenues and expenses, capitalization rates, discount rates, and development costs. In estimating the DCF, the Company considers the contractual lease rates and operating expenses as well as projected lease rates, expenses, and capital expenditures including leasing costs.

An impairment loss is recognized on investments in unconsolidated real estate partnerships when the impairment is deemed to be other than temporary. The Company considers impairment as other than a temporary impairment when the carrying value is not considered recoverable based upon the evaluation of the severity and duration of the decline, among other factors. The estimation of fair

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value is based on the Company's plans for the property and the Company's views on market and economic conditions using the results of DCF and other valuation techniques. During each of the years ended December 31, 2010, 2009, and 2008, certain events occurred, which impacted our estimated cash flows and the related estimated fair value of GTM, Northgate, Stratford, and Tallahassee, including certain tenant vacancies, the impact of related co-tenancy provisions resulting from these vacancies, and the resulting estimated decrease in cash flow.

Accordingly, as of December 31, 2010, 2009, and 2008, management performed a review to estimate the fair value of the properties. The Company's analysis resulted in impairment charges to long-lived assets of certain properties and certain related intangible assets, which affected the years ended December 31, 2009 and 2008; no further impairment was required for the year ended December 31, 2010. The impairment charges recorded during the years ended December 31, 2009 and 2008 were as follows:

| | 2009 Impairment charges | Adjusted basis, December 31, 2009 | Secured loan balance |
|-----------|--|--|-------------------------------------|
| Northgate | \$ 8,052 | 19,520 | 74,733 |
| ORV | 200 | 1,536 | — |
| Stratford | 28,386 | 41,219 | 104,500 |
| | <u>\$ 36,638</u> | <u>62,275</u> | <u>179,233</u> |
| | | | |
| | 2008 Impairment charges | Adjusted basis, December 31, 2008 | Secured loan balance |
| Northgate | \$ 88,726 | 30,500 | 75,971 |
| Stratford | 56,597 | 74,200 | 104,500 |
| | <u>\$ 145,323</u> | <u>104,700</u> | <u>180,471</u> |

During 2008, the Company recorded an impairment loss related to GTM and Tallahassee of \$20,975 and \$45,655, respectively, to state the property at its estimated fair value. These activities are referred to as impairment loss on long-lived assets within discontinued operations in our consolidated statements of operations.

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In estimating the fair value of the properties, in connection with recording the impairment summarized above, the Company utilized the following capitalization and discount rates in its DCF analysis as of December 31, 2009 and 2008:

| | 2009 | |
|-----------|--------------------------------|--------------------------|
| | Capitalization rate | Discount rate |
| Northgate | 10.46% | 12.54% |
| Stratford | 10.46 | 12.54 |

| | 2008 | |
|-------------|--------------------------------|--------------------------|
| | Capitalization rate | Discount rate |
| Tallahassee | 10.00% | 17.00% |
| GTM | 10.00 | 20.00 |
| Northgate | 10.00 | 20.00 |
| Stratford | 10.00 | 12.50 |

The impairment charges were allocated on a pro rata basis to each property's long-term assets and liabilities as follows, as of December 31, 2009 and 2008:

| | | 2009 | | |
|--------------------------------|----|------------------|------------|------------------|
| | | Northgate | ORV | Stratford |
| Investment in real estate, net | \$ | 7,853 | 200 | 28,082 |
| Other assets and liabilities | | 199 | — | 304 |
| Total impairment charge | \$ | 8,052 | 200 | 28,386 |

| | | 2008 | | | |
|--------------------------------|----|------------------------------|------------------|--------------------------------|--------------------|
| | | Continuing operations | | Discontinued operations | |
| | | Northgate | Stratford | GTM | Tallahassee |
| Investment in real estate, net | \$ | 85,384 | 55,633 | 20,379 | 46,651 |
| Other assets and liabilities | | 3,342 | 964 | 596 | (996) |
| Total impairment charge | \$ | 88,726 | 56,597 | 20,975 | 45,655 |

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During the year ended December 31, 2008, a review identified that there were impairments in the Harrisburg Mall and the Colonie Center Mall, which were carried as investments in unconsolidated real estate partnerships. The impairment analysis resulted in an aggregate loss of \$54,907. This amount is inclusive of \$6,978, which represents the Company's pro rata share of impairment booked at the Harrisburg Mall (property level) and is a component of equity in loss of unconsolidated real estate partnerships.

(b) Principles of Consolidation and Equity Method of Accounting

The accompanying consolidated financial statements have been prepared on the accrual method of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and includes the accounts of our wholly owned subsidiaries and all entities in which we had a controlling interest. All intercompany balances and transactions have been eliminated in consolidation.

We account for investments and partnerships that we do not control but have significant influence over using the equity method of accounting whereby our investment is initially recorded at cost and subsequently adjusted for our share of profits/losses and cash contributions and distributions.

The equity in net income or loss recognized by us and the carrying value of our investments in real estate in joint ventures are generally based on our share of the cash that would be distributed to us under the hypothetical liquidation of the joint venture, at the then book value, pursuant to the provisions of the respective operating partnership agreements.

With respect to our previous equity investment in FMP Kimco Foothills Member LLC, which we sold in January 2010 (note 15), we suspended the recognition of our share of losses at origination of the joint venture because we had a negative carrying value in our investment in this joint venture. Our share of the unrecognized losses for this joint venture for the years ended December 31, 2010 (period prior to January 2010 sale), 2009, and 2008 were \$0, \$782, and \$4,450, respectively.

(c) Gains on Disposition of Real Estate

Gains on the disposition of real estate assets are recorded when the recognition criteria have been met, generally at the time title is transferred and we no longer have substantial continuing involvement with the real estate asset sold. Gains on the disposition of real estate assets are deferred if we continue to have substantial continuing involvement with the real estate asset sold.

(d) Discontinued Operations

Properties that are sold, abandoned, or classified as held-for-sale are classified as discontinued operations provided that (1) the operations and cash flows of the property will be eliminated from our ongoing operations and (2) we will not have any significant continuing involvement in the operations of the property after it is sold or transferred. Interest expense is included in discontinued operations if the related loan securing the sold property is paid off or assumed in connection with the sale.

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(e) ***Management's Estimates***

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. Our estimates and assumptions affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. They also affect reported amounts of revenue and expenses during the reporting period. Actual results could differ from these amounts.

We are required to make subjective assessments as to whether there are impairments in the values of our investments in real estate, including real estate held by any unconsolidated real estate entities accounted for using the equity method. These assessments have a direct impact on our net income (loss) because recording an impairment loss results in an immediate negative adjustment to income.

We make estimates related to the collectability of accounts receivable related to minimum rent, deferred rent, expense reimbursements, lease termination fees, and other income. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts receivable.

Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these consolidated financial statements, different assumptions and estimates could materially impact our reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions, and changes in market conditions could impact our future operating results.

(f) ***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, we consider short-term investments with maturities of 90 days or less when purchased to be cash equivalents.

(g) ***Restricted Cash***

Restricted cash includes escrowed funds and other restricted deposits in conjunction with our loan agreements and cash restricted for property-level marketing funds.

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(h) Revenue Recognition and Tenant Receivables

Base rental revenue from retail property is recognized on a straight-line basis over the noncancelable lease terms, including bargain renewal options, if any, of the related leases, which are all accounted for as operating leases. As of December 31, 2010 and 2009, approximately \$1,310 and \$1,180, respectively, has been recognized as straight-line rents receivable (representing the current net cumulative rents recognized prior to the date when billed and collectible as provided by the terms of the lease). These amounts are included in rents, deferred rents, and other receivables, net in the accompanying consolidated financial statements. "Percentage rent," or rental revenue that is based upon a percentage of the sales recorded by our tenants is recognized in the period such sales are earned by the respective tenants. Percentage rents for the years ended December 31, 2010, 2009, and 2008 were \$1,355, \$1,233, and \$2,049, respectively. These amounts include balances related to properties classified as discontinued operations of \$140, \$290, and \$1,062, for 2010, 2009, and 2008, respectively, which are reported separately in note 16.

As part of the leasing process, we may provide the lessee with an allowance for the construction of leasehold improvements. Leasehold improvements are capitalized as part of the building and recorded as tenant improvements and depreciated over the shorter of the useful life of the improvements or the lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event we are not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of rental revenue. Lease revenue recognition commences when the lessee is given possession of the leased space, upon completion of tenant improvements, or when we are the owner of the leasehold improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date is when the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements.

Reimbursements from tenants related to real estate taxes, insurance, and other property-level operating expenses are recognized as revenue, based on a predetermined formula, in the period the applicable costs are incurred. Lease termination fees, net of deferred rent and related intangibles, which are included in interest and other income in the accompanying consolidated statements of operations, are recognized when the related leases are canceled, the tenant surrenders the space, and we have no continuing obligation to provide services to such former tenants. We recorded \$100, \$53, and \$117 (which include balances related to properties classified as discontinued operations of \$19 for 2008, which is reported separately in note 16) of lease termination fees during the years ended December 31, 2010, 2009, and 2008, respectively.

Our other sources of revenue come from providing management services to joint ventures, including property management, brokerage, leasing, and development services. Management fees generally are a percentage of cash receipts from managed properties and are recorded when earned, as services are provided. We defer recognition of our fees to the extent of our ownership interest in the joint ventures. These activities are referred to as management, leasing, and development services in the consolidated statements of operations.

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We provide an allowance for doubtful accounts receivable against the portion of tenant receivables that is estimated to be uncollectible. Past-due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted. Tenant receivables in the accompanying consolidated balance sheets are shown net of an allowance for doubtful accounts of \$1,575 and \$1,747 at December 31, 2010 and 2009, respectively.

Activity in the allowance for doubtful accounts is as follows:

| | | |
|------------------------------|----|---------------------|
| Balance at December 31, 2007 | \$ | 2,905 |
| Provision | | 2,021 |
| Write-offs | | <u>(3,466)</u> |
| Balance at December 31, 2008 | | 1,460 |
| Provision | | 1,176 |
| Write-offs | | <u>(889)</u> |
| Balance at December 31, 2009 | | 1,747 |
| Provision | | 837 |
| Write-offs | | <u>(1,009)</u> |
| Balance at December 31, 2010 | \$ | <u><u>1,575</u></u> |

The provision amounts detailed above include balances related to properties classified as discontinued operations of \$(53), \$88, and \$1,092 for 2010, 2009, and 2008, respectively, which are reported separately in note 16.

(i) ***Deferred Charges***

Deferred leasing commissions and other direct costs associated with the acquisition of tenants are capitalized and amortized on a straight-line basis over the terms of the related leases. Loan costs are capitalized and amortized to interest expense over the terms of the related loan using a method that approximates the effective-interest method. Certain of our employees provide leasing services to the properties. Our policy is to capitalize employee compensation directly allocable to these leasing services. A portion of their compensation, approximating \$39, \$228, and \$285 for the years ended December 31, 2010, 2009, and 2008, respectively, was capitalized and is being amortized over the corresponding lease terms. The related amortization expense for the years ended December 31, 2010, 2009, and 2008 was \$140, \$218, and \$404, respectively. These amounts include balances related to discontinued operations of \$3, \$13, and \$316, for 2010, 2009, and 2008, respectively, which are reported separately in note 16.

The Company wrote off fully amortized deferred financing costs totaling \$1,197, \$1,115, and \$0 for the years ended December 31, 2010, 2009, and 2008, respectively, in connection with the early extinguishments and refinancing of certain debt note 6.

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(j) *Investments in Real Estate and Depreciation*

Investments in real estate are stated at historical cost, less accumulated depreciation. The building and improvements thereon are depreciated on the straight-line basis over their estimated useful lives ranging from three to thirty-nine years. Tenant improvements are depreciated on the straight-line basis over the shorter of the lease term or their estimated useful life. Equipment is being depreciated on a straight-line basis over the estimated useful lives of three to seven years.

For redevelopment of existing operating properties, the net carrying value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs do not exceed the estimated fair value of the redeveloped property when completed. Real estate taxes and insurance costs incurred during construction periods are capitalized and amortized on the same basis as the related assets. Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period, until construction is substantially completed. Capitalized interest costs are amortized over lives consistent with constructed assets. We capitalized \$292 of these costs during the year ended December 31, 2008. No costs were capitalized during 2009 and 2010.

Improvements and replacements are capitalized when they extend the useful life or improve the efficiency of the asset. Repairs and maintenance are charged to expense as incurred.

Prior to 2008, Stratford and the local municipality where the mall property is located entered into a tax incentive financing (TIF) agreement whereby approved capital expenditures made by Stratford may be partially reimbursed by the municipality based on future incremental sales tax revenues. Reimbursements, which are recorded as a reduction of investments in real estate, net, when received, totaled \$1,242, \$1,406, and \$996, for the years ended December 31, 2010, 2009, and 2008, respectively.

As of December 31, 2009 and 2008, in connection with the impairment of long-lived assets that were recognized during the years ended December 31, 2009 and 2008, a new cost basis was established for the properties and the Company eliminated the related accumulated depreciation on the properties as part of the adjustment to record the impairment.

(k) *Accounting for Derivative Instruments Financial Instruments and Hedging Activities*

In the normal course of business, we use derivative instruments to manage, or hedge, interest rate risk. We require that hedging derivative instruments are effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting.

The Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including DCF analysis on the expected cash flows of each derivative. Derivative financial instruments are recorded on the consolidated balance sheets as assets or liabilities based on the instruments' fair value. Changes in the fair value of derivative financial instruments are recognized currently in earnings, unless the

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derivative financial instrument meets the criteria for hedge accounting. If the derivative financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the instrument are deferred in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction that is no longer likely to occur is immediately recognized in earnings.

Authoritative guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Derivatives measured and reported at fair value are classified and disclosed in one of the three following categories:

Level 1 – Unadjusted quoted prices in active markets for identical assets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable. The Company uses Level 3 inputs for measuring the fair value of substantially all derivatives.

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, a derivative's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The table below sets forth a summary of changes in our derivatives measured at fair value using Level 3 inputs:

| | <u>2010</u> | <u>2009</u> |
|------------------------|----------------|----------------|
| Balance at January 1 | \$ (3,221) | (5,276) |
| Change in fair value | 3,147 | 2,055 |
| Balance at December 31 | <u>\$ (74)</u> | <u>(3,221)</u> |

(l) *Income Taxes*

We have elected to be treated and believe that we have operated in a manner that has enabled us to qualify as a Real Estate Investment Trust, or REIT under Sections 856 through 860 of the Internal Revenue Code of 1986 (the Code), as amended. As a REIT, we, generally, are not required to pay federal corporate income taxes on our taxable income to the extent it is currently distributed to our stockholders. However, qualification and taxation as a REIT depends upon our ability to meet the

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various qualification tests imposed under the Code, including tests related to annual operating results, asset composition, distribution levels, and diversity of stock ownership. Accordingly, no assurance can be given that we will be organized or be able to operate in a manner so as to qualify or remain qualified as a REIT. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

We have elected that our management company subsidiary and certain consolidated corporations that held small interests in the Foothills Mall be treated as a “taxable REIT subsidiary” or TRS. In general, a TRS may perform noncustomary services for tenants, hold assets that we cannot hold directly, and generally may engage in any real estate or nonreal estate related business (except for the operation or management of healthcare facilities or lodging facilities or the provision to any person, under a franchise, license, or otherwise, of rights to any brand name under which any lodging facility or healthcare facility is operated). Our TRS’ are subject to corporate federal and state income taxes based on their taxable income. These rates are generally those rates that are charged for regular corporate entities. Income taxes are recorded using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A full valuation allowance is recorded against the combined net federal and state deferred tax assets, reducing the net deferred tax asset to \$0. As of December 31, 2010, we had unused book net operating losses of approximately \$1,668, which, based on our projected TRS operations from our third-party service contracts, we do not expect to utilize in future operating periods. The Company has \$74,018 in cumulative tax net operating losses (NOLs) as of December 31, 2010, which may be used to offset any future taxable income over a period of 20 years from the taxable year in which the NOL was originally incurred. The use of NOLs is also limited in the event of an “ownership change” at the Company as defined by Section 382 of the Internal Revenue Code. Section 382 generally limits the use of NOLs in post ownership change years to the fair market value of the loss corporation immediately before the ownership change, multiplied by the federal long-term tax-exempt rate of interest. The repurchase by the Company of all of its 6.85% Series A Cumulative Convertible Preferred Stock in November 2011 may have resulted in an ownership change.

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Deferred taxes related to our TRS' is as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------------|--------------|--------------|--------------|
| Income tax: | | | |
| Current – state | \$ — | (19) | (25) |
| Deferred – federal | 667 | 767 | 458 |
| Deferred – state | 79 | 90 | 54 |
| | <u>746</u> | <u>838</u> | <u>487</u> |
| Income tax | 746 | 838 | 487 |
| Valuation allocation | <u>(746)</u> | <u>(838)</u> | <u>(487)</u> |
| Net | <u>\$ —</u> | <u>—</u> | <u>—</u> |

We follow accounting requirements that prescribe a recognition threshold and measurement attribute for the financial statement measurement of a tax position taken in a tax return. This requires that tax positions shall initially be recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

Management has evaluated the Company's tax positions taken or expected to be taken on income tax returns to determine if they meet the minimum threshold for financial statement recognition of uncertain tax positions for all open periods and has concluded that no provision for income tax is required in the Company's consolidated financial statements. Our tax returns for fiscal years subsequent to 2004 remain subject to examination by the relevant tax jurisdictions.

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(m) Earnings (Loss) Per Share

We present both basic and diluted earnings (loss) per share, or EPS. Basic EPS excludes potentially dilutive securities and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS or greater loss per share amount. The following is the computation of our basic and diluted shares for the following periods:

| | Year ended December 31 | | |
|---|-------------------------------|-------------------|-------------------|
| | 2010 | 2009 | 2008 |
| Income (loss) from continuing operations | \$ 1,326 | (13,199) | (224,885) |
| Noncontrolling interests in operating partnership – continuing operations | (19) | 1,148 | 7,987 |
| Less preferred stock dividends | <u>(3,424)</u> | <u>(3,423)</u> | <u>(3,435)</u> |
| Loss from continuing operations used to calculate earnings per share – basic/diluted | <u>\$ (2,117)</u> | <u>(15,474)</u> | <u>(220,333)</u> |
| Income (loss) from discontinued operations, net | \$ 10,389 | 300 | (47,598) |
| Noncontrolling interests in operating partnership – discontinued operations | <u>(156)</u> | <u>(26)</u> | <u>1,690</u> |
| Net income (loss) from discontinued operations used to calculate earnings per share – basic/diluted | <u>\$ 10,233</u> | <u>274</u> | <u>(45,908)</u> |
| Basic weighted average common shares | 14,287,714 | 13,737,735 | 12,908,620 |
| Plus: | | | |
| Weighted average unvested restricted shares | 4,823 (A) | — (A) | — |
| Weighted average OP Units | <u>227,107 (A)</u> | <u>— (A)</u> | <u>—</u> |
| Diluted weighted average common shares | <u>14,519,644</u> | <u>13,737,735</u> | <u>12,908,620</u> |

(A) N/A, as impact would be antidilutive.

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| | Year ended December 31 | | |
|---|-------------------------------|---------------|----------------|
| | 2010 | 2009 | 2008 |
| Basic income (loss) earnings per share: | | | |
| Continuing operations | \$ (0.15) | (1.13) | (17.06) |
| Discontinued operations | 0.70 | 0.02 | (3.56) |
| | <u>\$ 0.55</u> | <u>(1.11)</u> | <u>(20.62)</u> |
| Diluted income (loss) earnings per share: | | | |
| Continuing operations | \$ (0.15) | (1.13) | (17.06) |
| Discontinued operations | 0.70 | 0.02 | (3.56) |
| | <u>\$ 0.55</u> | <u>(1.11)</u> | <u>(20.62)</u> |

Our computation of net loss per share excludes unvested, weighted average restricted stock issued to certain employees totaling 4,823, 32,336, and 88,248 during 2010, 2009, and 2008, respectively, and Operating Partnership Units (OP Units) totaling 0, 233,504, and 1,414,618 outstanding at December 31, 2010, 2009, and 2008, respectively.

(n) Segment Information

Our Company is a REIT and has one reportable segment, which is retail mall real estate.

(o) Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued authoritative guidance on how a company determines when an entity should be consolidated in June 2009, which we adopted on a prospective basis beginning January 1, 2010. The guidance clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The application of this guidance did not have an impact on our consolidated financial position, results of operations, or cash flows.

The FASB issued authoritative guidance on determining whether instruments granted in share-based payment transactions are participating securities in June 2008, which we adopted on a prospective basis beginning January 1, 2009. The guidance states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. The application of this guidance did not have an impact on our consolidated financial position, results of operations, or cash flows.

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The FASB issued authoritative guidance regarding the hierarchy of GAAP in May 2008, which we adopted on a prospective basis beginning January 1, 2009. The guidance states that the GAAP hierarchy will now reside in the accounting literature established by the FASB. The guidance identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of consolidated financial statements in conformity with GAAP. The application of this guidance did not have an impact on our consolidated financial position, results of operations, or cash flows.

The FASB issued authoritative guidance regarding disclosures about derivative instruments and hedging activities in March 2008, which we adopted on a prospective basis beginning January 1, 2009. The guidance enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under previous guidance and the impact of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. The application of this guidance did not have an impact on our consolidated financial position, results of operations, or cash flows.

The FASB issued authoritative guidance regarding noncontrolling interests in consolidated financial statements in December 2007. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We adopted this guidance on a prospective basis beginning January 1, 2009. The guidance requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified. In addition, it requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations. See note 13 for further information.

(p) *Share-Based Deferred Compensation*

We have a deferred compensation plan under which we are authorized to issue up to 441,246 shares of common stock to employees. During the life of the plan, we have granted 239,767 shares of common stock, net of forfeitures, which vest annually over periods ranging from two to five years.

Stock awards entitle the holder to shares of common stock as the award vests. We measure the fair value of share awards based upon the closing market price of the Company's common stock on the date of grant. Stock awards that vest in accordance with service conditions are amortized over their applicable vesting period using the straight-line method.

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The following table reflects unvested common stock activity for the years ended December 31, 2010, 2009, and 2008:

| | Number of unvested shares | | | Weighted average share price | | |
|-------------------|---------------------------|--------------|---------------|------------------------------|-------|-------|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Beginning balance | 8,710 | 70,599 | 158,744 | \$ 11.43 | 11.95 | 11.91 |
| Shares vested | (4,794) | (61,889) | (61,851) | 11.59 | 12.03 | 12.11 |
| Shares forfeited | — | — | (26,294) | — | — | 11.31 |
| Ending balance | <u>3,916</u> | <u>8,710</u> | <u>70,599</u> | 11.24 | 11.43 | 11.95 |

Share-based compensation expense included in net income (loss) for the years ended December 31, 2010, 2009, and 2008 was \$31, \$457, and \$559, respectively. These amounts are net of costs that qualified to be capitalized, which were \$15, \$72, and \$39, as of December 31, 2010, 2009, and 2008, respectively. It is our policy to capitalize employee compensation, including share-based compensation, allocated to construction and leasing services.

As of December 31, 2010, there was \$25 of total unrecognized compensation costs related to nonvested stock awards granted under the plan, which are expected to be recognized over a weighted average period of 0.5 years. The total grant date fair value of shares that vested during 2010 was \$56.

(q) Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

(3) Intangible Assets and Liabilities

At December 31, 2010 and 2009, the cost basis and accumulated amortization of intangible assets and liabilities were as follows:

| | <u>2010</u> | <u>2009</u> |
|--|---------------|--------------|
| Acquired lease rights, net of accumulated amortization of \$248 and \$111, respectively | \$ 544 | 914 |
| Acquired in-place lease values, net of accumulated amortization of \$170 and \$115, respectively | <u>254</u> | <u>911</u> |
| Total intangible assets | <u>\$ 798</u> | <u>1,825</u> |
| Acquired lease obligations, net of accumulated amortization of \$53 and \$109, respectively | \$ 83 | 237 |

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The following table provides the projected future amortization (expense) revenue for the next five years and thereafter as of December 31, 2010:

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016 and thereafter</u> | <u>Total</u> |
|--------------------------------|-----------------|--------------|--------------|-------------|-------------|--------------------------------|--------------|
| Acquired lease rights | \$ (189) | (164) | (130) | (21) | (9) | (31) | (544) |
| Acquired in-place lease values | (86) | (58) | (43) | (28) | (11) | (28) | (254) |
| Acquired lease obligations | 20 | 15 | 14 | 14 | 7 | 13 | 83 |
| Total | \$ <u>(255)</u> | <u>(207)</u> | <u>(159)</u> | <u>(35)</u> | <u>(13)</u> | <u>(46)</u> | <u>(715)</u> |

(4) Investment in Real Estate

At December 31, 2010 and 2009, investments in real estate consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|------------------|---------------|
| Buildings and improvements | \$ 39,912 | 51,580 |
| Tenant improvements | 13,334 | 12,637 |
| Construction in progress | 308 | 1,309 |
| Land | 8,389 | 12,300 |
| Total investments in real estate | 61,943 | 77,826 |
| Accumulated depreciation | (2,829) | (620) |
| Investments in real estate, net | \$ <u>59,114</u> | <u>77,206</u> |

(5) Deferred Charges

At December 31, 2010 and 2009, deferred charges consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-----------------|--------------|
| Deferred financing costs | \$ 208 | 1,378 |
| Deferred leasing costs | 2,163 | 2,144 |
| Total | 2,371 | 3,522 |
| Less accumulated amortization | (653) | (1,607) |
| Net | \$ <u>1,718</u> | <u>1,915</u> |

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(6) Mortgage Loans Payable

At December 31, 2010 and 2009, mortgage loans payable consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|----------------|
| Mortgage loan payable – interest only (as noted below), payable monthly, due May 2012, secured by Stratford | \$ 104,500 | 104,500 |
| Mortgage loan payable – interest at 6.60% payable monthly, secured by Northgate | <u>73,752</u> | <u>74,733</u> |
| Total mortgages outstanding | 178,252 | 179,233 |
| Assumed above-market mortgage premiums, net | <u>1,019</u> | <u>1,998</u> |
| Total mortgage loans payable | <u>\$ 179,271</u> | <u>181,231</u> |

On July 12, 2005, we assumed a \$79,605 first mortgage in connection with the acquisition of Northgate. The stated interest on the mortgage is 6.60% with a stated maturity date of 2032. Upon assumption, we determined this rate to be above market and, in applying purchase accounting, estimated the fair market value interest rate to be 5.37%. The related above-market premium was initially \$8,243 and is being amortized over the remaining term of the acquired loan using the effective-interest method. The amortization of the above-market premium totaled \$978, \$1,351, and \$1,374 for the years ended December 31, 2010, 2009, and 2008, respectively. The interest expense incurred for Northgate related to the mortgage loan payable totaled \$4,690, \$5,041, and \$5,135 for the years ended December 31, 2010, 2009, and 2008, respectively.

As indicated in note 1, during 2010 and 2009, we were not in compliance with the terms of the mortgage loan payable secured by Northgate. As a result, the lender commenced foreclosure proceedings and a receiver was appointed and took control of the property during February 2010. Upon appointment of the receiver, Northgate surrendered its rights to the property operations and cash flows but still holds title to the property and remains liable for the mortgage loan payable and other obligations at December 31, 2010. Although the mortgage loan payable, secured by Northgate, has a maturity date of October 11, 2032, with an anticipated repayment date of November 11, 2012, due to noncompliance with the terms of the mortgage loan payable as of December 31, 2010, the loan is currently due and payable in full.

On May 8, 2007, we executed a \$104,500 mortgage loan payable, secured by Stratford. The loan had an initial term of 36 months and bears interest at a floating rate of 115 basis points over the London Interbank Offered Rate (LIBOR). This loan had an initial stated maturity of May 9, 2010. The Company executed its extension option to extend the maturity of this mortgage loan payable to May 9, 2012. As discussed in note 1, Stratford was sold in November 2011 and the Purchaser assumed the \$104,500 mortgage loan payable.

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During December 2005, we entered into a \$75,000 notional value interest rate swap, which commenced in February 2008 and matured in January 2011. The effect of the swap was to fix the all-in interest rate of our forecasted cash flows on LIBOR-based loans at 4.91% per annum. During February 2009, an additional \$29,500 swap was originated and matured in May 2010. The effect of this swap was to fix the all-in interest rate on \$29,500 of the mortgage at 6.65% per annum.

During the years ended December 31, 2010, 2009, and 2008, Stratford incurred interest expense of \$1,512, \$1,599, and \$2,224, respectively, relating to the contractual interest incurred in accordance with the terms of the mortgage loan payable and \$4,182, \$4,925, and \$4,186, respectively, of interest expense incurred in connection with the terms of the interest rate swap agreement in which the Company swapped the floating rate for a fixed rate under the terms of the swap.

Aggregate principal payments of the Company's mortgage loans payable as of December 31, 2010 are as follows:

| | | |
|---|----|-----------------------|
| Year ending December 31: | | |
| 2011 | \$ | 73,752 |
| 2012 | | <u>104,500</u> |
| Total principal payments | | 178,252 |
| Assumed above-market mortgage premiums, net | | <u>1,019</u> |
| Total | \$ | <u><u>179,271</u></u> |

(7) Junior Subordinated Debt Obligations

During March 2006, we completed the issuance and sale in a private placement of \$28,500 in aggregate principal amount of preferred securities issued by our wholly owned subsidiary, FMP Statutory Trust I (the Trust). The Trust simultaneously issued 880 of its common securities to the operating partnership for a purchase price of \$880, which constitutes all of the issued and outstanding common securities of the Trust. The Trust used the proceeds from the sale of the trust preferred securities, together with the proceeds from the sale of the common securities to purchase \$29,380 in aggregate principal amount of unsecured fixed/floating rate junior subordinated notes due April 2036, issued by the operating partnership. The junior subordinated notes and the common and the trust preferred securities have substantially identical terms, requiring quarterly interest payments calculated at a fixed interest rate equal to 8.70% per annum.

In May 2009, we repurchased the junior subordinated notes with a face value of \$29,380 for \$1,500 and the issuance of 1.2 million shares of our common stock valued at \$180. As a result of this transaction, the Company recognized a gain of \$28,526 in the accompanying consolidated financial statements on the extinguishment of debt during the year ended December 31, 2009.

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(8) Line of Credit

In connection with the acquisition of GTM, we entered into a \$24,600 secured line of credit (the Line) with JPMorgan Chase Bank, N.A., collateralized by the Company's ownership interest in GTM. The Line was subsequently increased to \$30,000, and as of December 31, 2009, the Line had an outstanding balance of \$26,552 and accrued interest at a rate of 6.25% per annum. As indicated in note 1, the balance outstanding at December 31, 2009 was past due as of April 2009. We were unable to repay, amend, or refinance this obligation and JPMorgan Chase Bank, N.A. foreclosed and took possession of the property on July 6, 2010. As a result of the foreclosure transaction, the Company surrendered all benefits and was relieved of all obligations related to the property including the outstanding borrowings under the line.

(9) Related-Party Transactions

We have provided certain property management, leasing, and development services to our unconsolidated real estate partnerships for an annual management fee, ranging from 2% to 5% of gross receipts and construction management fees of 3% to 5% on the amount of capital improvements, as defined by their agreements. In addition, we earn customary brokerage commission fees as a percentage of contractual rents on new leases and lease renewals. Total fees earned from such partnerships aggregated \$77, \$592 and \$2,374 for the years ended December 31, 2010, 2009, and 2008, respectively. These fees are recorded in management, leasing, and development services on the accompanying consolidated statements of operations.

On April 1, 2008, we entered into an agreement with Brandywine Financial Services Corporation, a Pennsylvania corporation (Brandywine), and a member of the Brandywine Companies. Bruce Moore, one of our directors and current member of our office of the president, is the chairman and chief executive officer of Brandywine. Pursuant to this agreement, effective as of April 1, 2008, Brandywine agreed to provide us various accounting and management services relating to certain of our properties (the Projects), which include, among other things, services such as supervision of our operations, development of certain of our properties, lease administration, bookkeeping, accounting, and assistance with our financial statement audits (collectively, the Project Services). In addition, Brandywine agreed to provide us certain corporate accounting and administrative services, including, among other things, information technology user support, financial statement preparation and audit assistance, reports to joint venture partners, human resources management, cash management, and tax compliance (collectively, the Corporate Services). As compensation to Brandywine for the Project Services (with certain exceptions) and the Corporate Services, we agreed to pay Brandywine a fee equal to (a) with respect to the Project Services, 1.50% of our gross revenue generated by the Projects, payable monthly, plus (b) with respect to the Corporate Services, \$60 per month at inception, which was reduced to \$45 in September 2009, and to \$30 in September 2010, plus (c) travel and other out-of-pocket expenses incurred by Brandywine in connection with such services. This agreement had an initial term through June 30, 2009 and can be renewed on a year-to-year basis but is subject to termination by the parties at any time starting June 30, 2008 upon no less than 90 days prior to written notice. In connection with this agreement, Brandywine was paid a set-up fee of \$35 per entity totaling \$350. For the years ended December 31, 2010, 2009, and 2008, we recorded \$778, \$1,161, and \$1,724, respectively, in fees to Brandywine of which \$261 and \$0, were unpaid as of December 31, 2010 and 2009, respectively. In addition, Brandywine performed services for our joint venture affiliates totaling \$57, \$363, and \$450 for the years ended December 31, 2010, 2009, and 2008, respectively.

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The following table sets forth the types of services rendered in relation to the fees:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|---------------|--------------|--------------|
| Property-level project service and management fees | \$ 261 | 475 | 880 |
| Corporate service fees | 517 | 686 | 844 |
| Total | <u>\$ 778</u> | <u>1,161</u> | <u>1,724</u> |

(10) Rentals under Operating Leases

We receive rental income from the leasing of retail shopping center space under operating leases. We recognize income from tenant operating leases on a straight-line basis over the respective lease terms, and accordingly, rental income in a given period will vary from actual contractual rental amounts due. Our rental revenue will also be reduced by amortization of capitalized above-market lease values and increased by the amortization of below-market lease values. Amounts included in lease income on the straight-line basis for the years ended December 31, 2010, 2009, and 2008 were \$300, \$(8), and \$184, respectively, and include balances related to properties classified as discontinued operations of \$(6), \$(22), and \$137, respectively, which are reported separately in note 16.

The minimum future base rentals for Stratford and Northgate under noncancelable operating leases as of December 31, 2010 are as follows:

| | |
|-----------------------------------|------------------|
| Year ending December 31: | |
| 2011 | \$ 10,948 |
| 2012 | 10,114 |
| 2013 | 8,762 |
| 2014 | 5,961 |
| 2015 | 5,109 |
| 2016 and thereafter | <u>15,910</u> |
| Total future minimum base rentals | <u>\$ 56,804</u> |

One tenant represented approximately 10.81%, 10.40%, and 10.31% of rental income recorded in the accompanying statements of operations during the years ended December 31, 2010, 2009, and 2008, respectively. Minimum future base rentals do not include amounts that are payable by certain tenants based upon certain reimbursable property-level operating expenses.

(11) Executive Severance

During 2008, the Company recorded a severance charge of \$1,900 in connection with an agreement with Larry Feldman, the former chief executive officer of the Company, of which \$1,300 was accrued as of December 31, 2008. The accrued balance was paid in full during 2009, in accordance with the agreement.

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In conjunction with the sale of our Foothills Mall joint venture interest, \$718 was paid to the former chief executive officer to terminate a tax indemnification agreement and included in general and administrative expenses for the year ended December 31, 2010.

(12) Stockholders' Deficit

Our authorized capital stock consists of 250,000,000 shares, \$0.01 par value, consisting of 200,000,000 shares of common stock and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of December 31, 2010 and 2009, 14,292,537 shares of common stock were issued and outstanding.

Effective April 10, 2007, we entered into an agreement to issue, at a price of \$25 per share, \$50,000 of convertible preferred stock through the private placement of 2,000,000 shares of 6.85% Series A Cumulative Convertible Preferred Stock (the Series A Preferred Stock) to Inland American Real Estate Trust, Inc. (Inland), a public nonlisted REIT sponsored by an affiliate of the Inland Real Estate Group of Companies (Inland American). As of December 31, 2007, we had issued all 2,000,000 shares for an aggregate purchase price of \$50,000.

Under the terms of this transaction, and in accordance with New York Stock Exchange rules, we obtained stockholder approval to permit conversion of the preferred shares into common stock. Inland has the option after June 30, 2009 to convert some or all of its outstanding preferred shares. Each preferred share was issued at a price of \$25 per share and is convertible, in whole or in part, at a conversion ratio of 1.77305 common shares to preferred shares. This conversion ratio is based upon a common share price of \$14.10 per share.

Under the terms of the Articles Supplementary relating to the Series A Preferred Stock, at all times during which the Series A Preferred Stock is outstanding, the holders of the Series A Preferred Stock have the right to elect one person to serve as a director of our company. In addition, in the event that we do not meet certain financial covenants, as defined, the holders have the right to elect one additional member to our board of directors. We did not meet certain financial covenants as of March 31, 2008. Accordingly, effective May 2008, the holders of the Series A Preferred Stock elected Thomas H. McAuley and Thomas P. McGuinness to our board of directors. Mr. McAuley resigned as a director on May 20, 2009 and was replaced by Jonathan J. Stein.

Since July 10, 2008, our board has determined not to pay the quarterly dividend payable on the outstanding shares of the Series A Preferred Stock. However, the Company has accrued preferred dividends with a corresponding debit to accumulated deficit of \$3,424, \$3,423, and \$3,435 for the years ended December 31, 2010, 2009, and 2008, respectively. Total accrued dividends at December 31, 2010 and 2009 were \$9,430 and \$6,005, respectively. As further discussed in note 18, all of the preferred shares were repurchased by the Company in November 2011. As a result of the repurchase, the Company will no longer have the obligation to pay the dividends and any accruals will be reclassified to accumulated deficit upon closing of the transaction.

(13) Noncontrolling Interests

As of December 31, 2010 and 2009, noncontrolling interests related to the units of limited partner interests in our operating partnership that were not owned by us were 0.0% and 1.6%, respectively, of our diluted

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common equity. These units were previously issued in conjunction with our formation to certain persons and entities contributing ownership interests in our predecessor. Limited partners who acquired units in our formation transactions had the right, commencing on or after December 16, 2005, to require our operating partnership to redeem part or all of their units for cash or, at our option, an equivalent number of shares of our common stock at the time of the redemption.

During the years ended December 2010 and 2009, 233,504 and 1,181,114, respectively, of these OP Units were purchased and redeemed by Feldman Equities Operating Partnership L.P. for cash consideration of \$14 and \$150, respectively. The OP Units purchased during 2010 were the last remaining units held by noncontrolling interest holders, such that as of December 31, 2010, the REIT held 100% of the Operating Partnership's OP Units.

As previously disclosed in note 2(o), the Company adopted new guidance for accounting for noncontrolling interest effective, January 1, 2009. The new requirements amended prior accounting and reporting standards for the noncontrolling interest (previously referred to as minority interest). The requirements generally requires noncontrolling interests to be treated as a separate component of stockholders deficit and consolidated net income (loss) to include the noncontrolling interest share. Under this accounting guidance, we report the noncontrolling interest as a component of shareholders' deficit in that the mandatory redemption feature is not outside the control of the Company.

The calculation of earnings (loss) per share continues to be based on amounts attributable to the Company. The new requirements also contain a single method of accounting for transactions that change the Company's ownership interest by requiring all such transactions, including the purchases referred to above, to be accounted for as equity transactions. The 2008 consolidated financial statements include reclassifications of previously reported amounts to conform to the new method of presentation. These reclassifications did not change reported net loss to the Company or loss per share.

Prior to the adoption of the new accounting requirements, the net equity of the Operating Partnership's noncontrolling interest was less than zero at December 31, 2008. Under the previous a method of accounting, such balances were reported at zero value. Although the new requirements require less than zero (deficit) balances to be reported subsequent to adoption, re-measurement of the balance at the January 1, 2009 adoption date was not required. On a pro-forma basis, the net loss attributable to the Company for the year ended December 31, 2009 would have been \$12,899 or \$(1.19) per share if accounted for under the previous method of accounting for noncontrolling interest.

(14) Commitment and Contingencies

In the normal course of business, we may become involved in legal actions relating to the ownership and operations of our properties. In management's opinion, the resolutions of these legal actions are not expected to have a material adverse effect on our consolidated financial position or results of operations.

Parcels sharing common areas, not owned, are subject to reciprocal easement agreements that address use and maintenance of common areas and often address other issues, including use restrictions and operating covenants. These agreements are recorded against the properties and are long-term in nature.

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Adjacent to Stratford are five third-party-owned anchor tenant spaces. We have entered into operating agreements with these five anchor tenants to share certain operating expenses based on allocated amounts per square foot. The agreements terminate in March 2031.

As of December 31, 2010 and 2009, we have commitments to make tenant improvements and other capital expenditures in the amount of approximately \$422 and \$249, respectively.

On July 1, 2009, we entered into a month-to-month lease agreement for our corporate offices. We have operating lease obligations for equipment related to our corporate offices and property locations. The future minimum lease payments under these noncancelable leases as of December 31, 2010 are as follows:

| | | |
|------------------------------|----|------------------|
| Year ending December 31: | | |
| 2011 | \$ | 15 |
| 2012 | | <u>5</u> |
| Total minimum lease payments | \$ | <u><u>20</u></u> |

(15) Investments in Unconsolidated Partnerships

The following summarizes activity related to our previous investments in unconsolidated partnerships investments:

(a) *Foothills Mall*

On January 29, 2010, the Company sold our joint venture interest in Foothills Mall to our partner for approximately \$1,500 and received \$350 as consideration for the termination of our property management agreement for the mall. As of December 31, 2009, we had a negative carrying value for this investment of \$5,232. The Company recognized a gain on the sale of this investment of \$7,228 and the \$350 management termination fee was recorded as a component of other income during the year ended December 31, 2010.

(b) *Harrisburg Mall*

The Company's investment in Harrisburg Mall was written down to \$0 as of December 31, 2008, as a result of approximately \$7,384 equity in loss and approximately \$9,532 impairment loss recorded during 2008. During 2009, this partnership, released its investment in the Harrisburg Mall after all attempts to amend the property's nonrecourse mortgage loan payable were unsuccessful and the mortgage lender completed foreclosure proceedings.

(c) *Colonie Center Mall*

During May, 2009, we sold our joint venture interest in Colonie Center Mall to our partner, Heitman Value Partners, for cash consideration of approximately \$4,100 and recognized a gain in the accompanying statements of operations of \$4,645. The cash consideration approximated our carrying value of this investment, which was included in investments in unconsolidated real estate

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partnerships at December 31, 2008. The gain on sale was the result of recognition of a previous deferred gain of \$3,515 recorded when we originally contributed property to the joint venture for our partial ownership interest and reversal of other liabilities totaling \$1,130.

(16) Discontinued Operations

The following table summarizes discontinued operations for the years ended December 31, 2010, 2009, and 2008 related to GTM and Tallahassee:

| | Year ended December 31 | | | |
|---|-------------------------------|--------------|-----------------|--------------------|
| | 2010 | 2009 | 2008 | 2008 |
| | GTM | GTM | GTM | Tallahassee |
| Revenue: | | | | |
| Rental | \$ 2,056 | 3,540 | 3,989 | 6,116 |
| Tenant reimbursements | 962 | 1,532 | 1,788 | 1,405 |
| Interest and other income | 52 | 35 | 57 | 38 |
| Total revenue | <u>3,070</u> | <u>5,107</u> | <u>5,834</u> | <u>7,559</u> |
| Expenses: | | | | |
| Rental, property operating, and maintenance | 1,108 | 2,350 | 1,553 | 3,103 |
| Real estate taxes | 214 | 550 | 523 | 927 |
| Interest (including amortization of deferred financing costs) | 837 | 1,792 | 1,130 | 1,442 |
| Depreciation and amortization | 357 | 897 | 1,518 | 2,363 |
| Bad debt expense | (53) | 88 | 1,092 | 909 |
| Total expenses | <u>2,463</u> | <u>5,677</u> | <u>5,816</u> | <u>8,744</u> |
| Income (loss) from discontinued operations | 607 | (570) | 18 | (1,185) |
| Impairment loss on long-lived assets | — | — | (20,975) | (45,655) |
| Gain on sale of real estate | — | 870 | — | — |
| Gain on extinguishment of debt | 9,782 | — | — | 20,199 |
| Income (loss) from discontinued operations | <u>\$ 10,389</u> | <u>300</u> | <u>(20,957)</u> | <u>(26,641)</u> |

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(17) Financial Instruments: Derivatives and Hedging

The following table summarizes the notional and fair value of our derivative financial instruments at December 31, 2010. The notional value is an indication of the extent of our involvement in this instrument at that time, but does not represent exposure to credit, interest rate, or market risks:

| | | 2010 | | | | |
|--------------------|-----------------------|--------------------|-----------------------|------------------------|-------------------|--|
| | <u>Notional value</u> | <u>Strike rate</u> | <u>Effective date</u> | <u>Expiration date</u> | <u>Fair value</u> | |
| Interest rate swap | \$ 75,000 | 4.91% | January 2008 | January 2011 | \$ (74) | |
| | | 2009 | | | | |
| | <u>Notional value</u> | <u>Strike rate</u> | <u>Effective date</u> | <u>Expiration date</u> | <u>Fair value</u> | |
| Interest rate swap | \$ 75,000 | 4.91% | January 2008 | January 2011 | \$ (2,720) | |
| Interest rate swap | 29,500 | 5.51 | June 2007 | May 2010 | (501) | |

On December 31, 2010, the fair value of the derivative instruments was recorded in accounts payable, accrued expenses, and other liabilities. Over time, the \$74 in accumulated other comprehensive income will be reclassified into operations as interest expense in the same periods in which the hedged interest payments affect earnings. We estimate that approximately \$74 will be reclassified between accumulated other comprehensive income and earnings within the next 12 months. We hedge our exposure to variability in anticipated future interest payments on existing variable rate debt.

(18) Subsequent Events

Preferred Share Repurchase

On November 16, 2011, the Company completed its repurchase of 2,000,000 shares of 6.85% Series A Cumulative Convertible Preferred Stock, liquidation value \$25 per share (the Preferred Shares), from Inland American Real Estate Trust, Inc. The Preferred Shares constitute all shares of preferred stock issued by the Company and outstanding. The total consideration paid to Inland American amounted to \$1,000. An earnest money deposit of \$200 had previously been placed with Inland American and the remaining balance of \$800 was paid at closing. Concurrently with the repurchase, Thomas P. McGuinness and Jonathan J. Stein resigned as directors of the Company.

The Company has evaluated events through January 6, 2012, the date the consolidated financial statements were available to be issued, and noted no subsequent events, other than previously disclosed, requiring recognition or disclosure in the consolidated financial statements.