

CBL & ASSOCIATES PROPERTIES INC
Form 10-Q
May 10, 2010

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

Or

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-12494

CBL & ASSOCIATES PROPERTIES, INC.
(Exact Name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)
Identification Number)

62-1545718
(I.R.S. Employer

2030 Hamilton Place Blvd., Suite 500, Chattanooga, TN 37421-6000
(Address of principal executive office, including zip code)

423.855.0001
(Registrant's telephone number, including area code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 4, 2010, there were 138,062,257 shares of common stock, par value \$0.01 per share, outstanding.

CBL & Associates Properties, Inc.

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PART I – FINANCIAL INFORMATION

ITEM 1: Financial Statements

CBL & Associates Properties, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|----------------------|
| ASSETS | | |
| Real estate assets: | | |
| Land | \$ 946,570 | \$ 946,750 |
| Buildings and improvements | 7,576,916 | 7,569,015 |
| | 8,523,486 | 8,515,765 |
| Less accumulated depreciation | (1,568,868) | (1,505,840) |
| | 6,954,618 | 7,009,925 |
| Developments in progress | 91,321 | 85,110 |
| Net investment in real estate assets | 7,045,939 | 7,095,035 |
| Cash and cash equivalents | 50,215 | 48,062 |
| Receivables: | | |
| Tenant, net of allowance for doubtful accounts of \$3,217 in 2010 and \$3,101 in 2009 | 66,783 | 73,170 |
| Other | 8,668 | 8,162 |
| Mortgage and other notes receivable | 39,051 | 38,208 |
| Investments in unconsolidated affiliates | 186,628 | 186,523 |
| Intangible lease assets and other assets | 270,656 | 279,950 |
| | \$ 7,667,940 | \$ 7,729,110 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY | | |
| Mortgage and other indebtedness | \$ 5,458,577 | \$ 5,616,139 |
| Accounts payable and accrued liabilities | 248,323 | 248,333 |
| Total liabilities | 5,706,900 | 5,864,472 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests: | | |
| Redeemable noncontrolling partnership interests | 28,520 | 22,689 |
| Redeemable noncontrolling preferred joint venture interest | 421,506 | 421,570 |
| Total redeemable noncontrolling interests | 450,026 | 444,259 |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value, 15,000,000 shares authorized: | | |
| 7.75% Series C Cumulative Redeemable Preferred Stock, | 5 | 5 |

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| | | |
|--|--------------|--------------|
| 460,000 shares outstanding 7.375% Series D Cumulative Redeemable Preferred Stock, 1,330,000 and 700,000 shares outstanding in 2010 and 2009, respectively | 13 | 7 |
| Common stock, \$.01 par value, 350,000,000 shares authorized, 138,016,637 and 137,888,408 issued and outstanding in 2010 and 2009, respectively | 1,380 | 1,379 |
| Additional paid-in capital | 1,512,607 | 1,399,654 |
| Accumulated other comprehensive income | 2,665 | 491 |
| Accumulated deficit | (300,314) | (283,640) |
| Total shareholders' equity | 1,216,356 | 1,117,896 |
| Noncontrolling interests | 294,658 | 302,483 |
| Total equity | 1,511,014 | 1,420,379 |
| | \$ 7,667,940 | \$ 7,729,110 |

The accompanying notes are an integral part of these balance sheets.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2010 | 2009 |
| REVENUES: | | |
| Minimum rents | \$ 168,821 | \$ 171,937 |
| Percentage rents | 4,013 | 4,804 |
| Other rents | 4,576 | 4,280 |
| Tenant reimbursements | 79,823 | 81,484 |
| Management, development and leasing fees | 1,706 | 2,465 |
| Other | 7,237 | 6,090 |
| Total revenues | 266,176 | 271,060 |
| EXPENSES: | | |
| Property operating | 38,897 | 44,017 |
| Depreciation and amortization | 72,012 | 78,311 |
| Real estate taxes | 24,992 | 24,154 |
| Maintenance and repairs | 16,184 | 15,994 |
| General and administrative | 11,074 | 11,479 |
| Other | 6,701 | 5,157 |
| Total expenses | 169,860 | 179,112 |
| Income from operations | 96,316 | 91,948 |
| Interest and other income | 1,051 | 1,581 |
| Interest expense | (73,460) | (71,885) |
| Loss on impairment of investment | - | (7,706) |
| Gain (loss) on sales of real estate assets | 866 | (139) |
| Equity in earnings of unconsolidated affiliates | 539 | 1,534 |
| Income tax benefit (provision) | 1,877 | (603) |
| Income from continuing operations | 27,189 | 14,730 |
| Operating income (loss) of discontinued operations | 14 | (66) |
| Loss on discontinued operations | - | (60) |
| Net income | 27,203 | 14,604 |
| Net income attributable to noncontrolling interests in: | | |
| Operating partnership | (4,110) | (1,306) |
| Other consolidated subsidiaries | (6,137) | (6,131) |
| Net income attributable to the Company | 16,956 | 7,167 |
| Preferred dividends | (6,028) | (5,455) |
| Net income available to common shareholders | \$ 10,928 | \$ 1,712 |

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)
(Continued)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2010 | 2009 |
| Basic earnings per share available to common shareholders: | | |
| Income from continuing operations, net of preferred dividends | \$ 0.08 | \$ 0.03 |
| Discontinued operations | - | - |
| Net income available to common shareholders | \$ 0.08 | \$ 0.03 |
| Weighted average common shares outstanding | 137,967 | 66,407 |
| Diluted earnings per share available to common shareholders: | | |
| Income from continuing operations, net of preferred dividends | \$ 0.08 | \$ 0.03 |
| Discontinued operations | - | - |
| Net income available to common shareholders | \$ 0.08 | \$ 0.03 |
| Weighted average common and potential dilutive common shares outstanding | 138,006 | 66,439 |
| Amounts available to common shareholders: | | |
| Income from continuing operations, net of preferred dividends | \$ 10,918 | \$ 1,784 |
| Discontinued operations | 10 | (72) |
| Net income available to common shareholders | \$ 10,928 | \$ 1,712 |
| Dividends declared per common share | \$ 0.2000 | \$ 0.3700 |

The accompanying notes are an integral part of these statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands, except per share data)

| | Equity | | | | | | | |
|----|--|--------------------|-----------------|----------------------------------|---|------------------------|----------------------------------|-----------------------------|
| | Redeemable Noncontrolling Partnership Interests | Preferred Stock | Common Stock | Additional Paid-in Capital | Shareholders' Equity Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Shareholders' Equity | Noncontrolling Interests |
| \$ | 18,393 | \$ 12 | \$ 664 | \$ 993,941 | \$ (12,786) | \$ (193,307) | \$ 788,524 | \$ 380,472 |
| | 971 | - | - | - | - | 7,167 | 7,167 | 1,411 |
| | (28) | - | - | - | (1,191) | - | (1,191) | (884) |
| | 24 | - | - | - | 1,135 | - | 1,135 | 771 |
| | 1 | - | - | - | 27 | - | 27 | 20 |
| | 11 | - | - | - | 382 | - | 382 | 355 |
| | 8 | - | - | - | - | - | 353 | 262 |
| | - | - | - | - | - | (24,576) | (24,576) | - |
| | - | - | - | - | - | (5,455) | (5,455) | - |
| | - | - | - | 254 | - | - | 254 | - |
| | - | - | - | (11) | - | - | (11) | - |

| | | | | | | | | | | | | | | | |
|----|---------|----|----|-------|-----|----|---------|----------|----------|----|-----------|----|---------|----|---------|
| | - | - | - | 19 | - | - | 19 | - | | | | | | | |
| | - | - | - | 774 | - | - | 774 | - | | | | | | | |
| | (1,430) | - | - | - | - | - | - | (18,796) | | | | | | | |
| | 305 | - | - | 2,429 | - | - | 2,429 | (2,734) | | | | | | | |
| e | (400 |) | - | - | 400 | - | - | 400 | - | | | | | | |
| \$ | 17,847 | \$ | 12 | \$ | 664 | \$ | 997,806 | \$ | (12,433) | \$ | (216,171) | \$ | 769,878 | \$ | 360,615 |

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands, except per share data)
(Continued)

| | Equity | | | | | | | |
|-------------|--|--------------------|-----------------|----------------------------------|---|------------------------|----------------------------------|-----------------------------|
| | Redeemable Noncontrolling Partnership Interests | Preferred Stock | Common Stock | Additional Paid-in Capital | Shareholders' Equity Accumulated Other Comprehensive Income | Accumulated Deficit | Total Shareholders' Equity | Noncontrolling Interests |
| ary | \$ 22,689 | \$ 12 | \$ 1,379 | \$ 1,399,654 | \$ 491 | \$ (283,640) | \$ 1,117,896 | \$ 302,483 |
| | 1,055 | - | - | - | - | 16,956 | 16,956 | 4,086 |
| ed | | | | | | | | |
| sale | 29 | - | - | - | 2,571 | - | 2,571 | 939 |
| ed ng | 5 | - | - | - | 442 | - | 442 | 162 |
| s on ncy | 1 | - | - | - | 123 | - | 123 | 45 |
| gain gn | (397) | - | - | - | (962) | - | (962) | 1,203 |
| r e | (362) | | | | | | 2,174 | 2,349 |
| k | - | - | - | - | - | (27,602) | (27,602) | - |
| k | - | - | - | - | - | (6,028) | (6,028) | - |
| k | - | 6 | - | 121,035 | - | - | 121,041 | - |
| k | - | - | 1 | 58 | - | - | 59 | - |

| | | | | | | | | |
|------------------------------|-----------|-------|----------|--------------|----------|--------------|--------------|------------|
| ock of | - | - | - | (24) | - | - | (24) | - |
| ock | - | - | - | 133 | - | - | 133 | - |
| ts of | - | - | - | 3 | - | - | 3 | - |
| fect sed on to g | (10) | - | - | (923) | - | - | (923) | (337) |
| or g | (1,893) | - | - | - | - | - | - | (15,142) |
| | 712 | - | - | (1,931) | - | - | (1,931) | 1,219 |
| g interest | 6,329 | - | - | (6,329) | - | - | (6,329) | - |
| ch | \$ 28,520 | \$ 18 | \$ 1,380 | \$ 1,512,607 | \$ 2,665 | \$ (300,314) | \$ 1,216,356 | \$ 294,658 |

The accompanying notes are an integral part of these statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 27,203 | \$ 14,604 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 48,334 | 48,033 |
| Amortization | 24,549 | 31,196 |
| Net amortization of above and below market leases | (882) | (1,557) |
| Amortization of deferred finance costs and debt premiums (discounts) | 1,397 | (623) |
| (Gain) loss on sales of real estate assets | (866) | 139 |
| Realized foreign currency loss | 169 | 48 |
| Loss on discontinued operations | - | 60 |
| Impairment of investment | - | 7,706 |
| Share-based compensation expense | 979 | 970 |
| Income tax effect from share-based compensation | (1,270) | - |
| Equity in earnings of unconsolidated affiliates | (539) | (1,534) |
| Distributions of earnings from unconsolidated affiliates | 1,022 | 3,727 |
| Write-off of development projects | 99 | 76 |
| Provision for doubtful accounts | 1,455 | 2,131 |
| Change in deferred tax asset | (486) | (309) |
| Changes in: | | |
| Tenant and other receivables | 4,426 | 5,129 |
| Other assets | (2,206) | (4,110) |
| Accounts payable and accrued liabilities | (14,974) | (13,951) |
| Net cash provided by operating activities | 88,410 | 91,735 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to real estate assets | (28,186) | (61,328) |
| Proceeds from sales of real estate assets | 1,266 | 4,721 |
| Additions to mortgage notes receivable | - | (4,437) |
| Payments received on mortgage notes receivable | 205 | 3,083 |
| Distributions from restricted cash | 9,932 | 11,208 |
| Distributions in excess of equity in earnings of unconsolidated affiliates | 11,379 | 21,339 |
| | (12,965) | (22,306) |

| | | | |
|--|------------|---|--------------|
| Additional investments in and advances to unconsolidated affiliates | | | |
| Changes in other assets | (1,292 |) | 2,256 |
| Net cash used in investing activities | \$ (19,661 |) | \$ (45,464) |

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)
(Continued)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2010 | 2009 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from mortgage and other indebtedness | \$ 161,391 | \$ 105,276 |
| Principal payments on mortgage and other indebtedness | (317,291) | (104,020) |
| Additions to deferred financing costs | (1,510) | (841) |
| Proceeds from issuance of common stock | 14 | 66 |
| Proceeds from issuance of preferred stock | 121,041 | - |
| Proceeds from exercise of stock options | 133 | - |
| Income tax effect from share-based compensation | 1,270 | - |
| Distributions to noncontrolling interests | (18,720) | (24,644) |
| Dividends paid to holders of preferred stock | (6,028) | (5,455) |
| Dividends paid to common shareholders | (6,895) | (24,568) |
| Net cash used in financing activities | (66,595) | (54,186) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | (1) | 761 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 2,153 | (7,154) |
| CASH AND CASH EQUIVALENTS, beginning of period | 48,062 | 51,227 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 50,215 | \$ 44,073 |
| SUPPLEMENTAL INFORMATION: | | |
| Cash paid for interest, net of amounts capitalized | \$ 70,764 | \$ 73,856 |

The accompanying notes are an integral part of these statements.

CBL & Associates Properties, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands, except share data)

Note 1 – Organization and Basis of Presentation

CBL & Associates Properties, Inc. (“CBL”), a Delaware corporation, is a self-managed, self-administered, fully integrated real estate investment trust (“REIT”) that is engaged in the ownership, development, acquisition, leasing, management and operation of regional shopping malls, open-air centers, community centers and office properties. Its shopping center properties are located in 27 states, but are primarily in the southeastern and midwestern United States.

CBL conducts substantially all of its business through CBL & Associates Limited Partnership (the “Operating Partnership”). At March 31, 2010, the Operating Partnership owned controlling interests in 76 regional malls/open-air centers (including one mixed-use center), 30 associated centers (each located adjacent to a regional mall), ten community centers, and 13 office buildings, including CBL’s corporate office building. The Operating Partnership consolidates the financial statements of all entities in which it has a controlling financial interest or where it is the primary beneficiary of a variable interest entity. At March 31, 2010, the Operating Partnership owned non-controlling interests in nine regional malls, four associated centers, four community centers and six office buildings. Because one or more of the other partners have substantive participating rights, the Operating Partnership does not control these partnerships and joint ventures and, accordingly, accounts for these investments using the equity method. The Operating Partnership had a controlling interest in one community center, owned in a 75/25 joint venture that was under construction at March 31, 2010. The Operating Partnership also holds options to acquire certain development properties owned by third parties.

CBL is the 100% owner of two qualified REIT subsidiaries, CBL Holdings I, Inc. and CBL Holdings II, Inc. At March 31, 2010, CBL Holdings I, Inc., the sole general partner of the Operating Partnership, owned a 1.1% general partner interest in the Operating Partnership and CBL Holdings II, Inc. owned a 71.6% limited partner interest for a combined interest held by CBL of 72.7%.

The noncontrolling interest in the Operating Partnership is held primarily by CBL & Associates, Inc. and its affiliates (collectively “CBL’s Predecessor”) and by affiliates of The Richard E. Jacobs Group, Inc. (“Jacobs”). CBL’s Predecessor contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for a limited partner interest when the Operating Partnership was formed in November 1993. Jacobs contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for limited partner interests when the Operating Partnership acquired the majority of Jacobs’ interests in 23 properties in January 2001 and the balance of such interests in February 2002. At March 31, 2010, CBL’s Predecessor owned a 9.8% limited partner interest, Jacobs owned a 12.1% limited partner interest and third parties owned a 5.4% limited partner interest in the Operating Partnership. CBL’s Predecessor also owned 7.3 million shares of CBL’s common stock at March 31, 2010, for a total combined effective interest of 13.6% in the Operating Partnership.

The Operating Partnership conducts CBL’s property management and development activities through CBL & Associates Management, Inc. (the “Management Company”) to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Operating Partnership owns 100% of both of the Management Company’s preferred stock and common stock.

CBL, the Operating Partnership and the Management Company are collectively referred to herein as “the Company”.

The accompanying condensed consolidated financial statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities

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and Exchange Commission. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Material intercompany transactions have been eliminated. The results for the interim period ended March 31, 2010 are not necessarily indicative of the results to be obtained for the full fiscal year.

In April 2009, the Company paid its first quarter dividend on its common stock of \$0.37 per share in cash and shares of common stock. The Company issued 4,754,355 shares of its common stock in connection with the dividend, which resulted in an increase of approximately 7.2% in the number of shares outstanding. The Company elected to treat the issuance of its common stock as a stock dividend for earnings per share ("EPS") purposes pursuant to accounting guidance that was in effect at that time. Therefore, all share and per share information related to EPS was adjusted proportionately to reflect the additional common stock issued on a retrospective basis. However, in January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-01, Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash ("ASU 2010-01") requiring that stock dividends such as the one the Company made in April 2009 be treated as a stock issuance that is reflected in share and per share information related to EPS on a prospective basis. Pursuant to the provisions of ASU 2010-01, the Company adopted this guidance on a retrospective basis. Thus, the share and per share information related to EPS presented in the Company's Form 10-Q for the quarterly period ended March 31, 2009, has been revised to reflect this adoption.

The Company has evaluated subsequent events through the date of issuance of these financial statements.

These condensed consolidated financial statements should be read in conjunction with CBL's audited consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 22, 2010, as amended.

Note 2 – Recent Accounting Pronouncements

Effective January 1, 2010, the Company adopted ASU No. 2010-06, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 provides that significant transfers in or out of measurements classified as Levels 1 or 2 should be disclosed separately along with reasons for the transfers. Information regarding purchases, sales, issuances and settlements related to measurements classified as Level 3 are also to be presented separately. Existing disclosures have been updated to include fair value measurement disclosures for each class of assets and liabilities and information regarding the valuation techniques and inputs used to measure fair value in both measurements classified as Levels 2 or 3. The guidance was effective for fiscal years beginning after December 15, 2009 excluding the provision relating to the rollforward of Level 3 activity which has been deferred until January 1, 2011. The adoption did not have an impact on the Company's condensed consolidated financial statements.

Effective January 1, 2010, the Company adopted ASU No. 2009-16, Transfers and Servicing: Accounting for Transfers of Financial Assets ("ASU 2009-16"). The guidance eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires additional related disclosures. The adoption did not have an impact on the Company's condensed consolidated financial statements.

Effective January 1, 2010, the Company adopted ASU No. 2009-17, Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU 2009-17"). ASU 2009-17 modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting, or similar, rights should be consolidated. 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

