

NEW PLAN EXCEL REALTY TRUST INC  
Form 10-Q  
May 07, 2004

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD  
ENDED MARCH 31, 2004**

**OR**

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

**FROM TO**

Commission file number 1-12244

### NEW PLAN EXCEL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

**MARYLAND**  
(State or other Jurisdiction of  
Incorporation)

**33-0160389**  
(IRS Employer  
Identification No.)

**1120 Avenue of the Americas, New York, New York 10036**

(Address of Principal Executive Office) (Zip Code)

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212-869-3000

Registrant's Telephone Number

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 and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES  NO

The number of shares of common stock of the Registrant outstanding on May 1, 2004 was 100,154,196.

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### Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by New Plan Excel Realty Trust, Inc. (the Registrant or the Company), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations which may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to:

national or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from the current economic downturn

the competitive environment in which we operate

property management risks

financial risks, such as the inability to obtain debt or equity financing on favorable terms

possible future downgrades in our credit rating

the level and volatility of interest rates

financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws

the ability to maintain our status as a REIT for federal income tax purposes

governmental approvals, actions and initiatives

environmental/safety requirements and costs

risks of real estate acquisition and development, including the failure of acquisitions to close and pending developments and redevelopments to be completed on time and within budget; risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns

risks of joint venture activities

other risks identified in this Quarterly Report on Form 10-Q and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC ) or in other documents that we publicly disseminate.

We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**For the Three Months Ended March 31, 2004 and 2003**

**(In thousands, except per share amounts)**

|                                                                                                                    | Three Months Ended |                  |
|--------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                                                    | March 31, 2004     | March 31, 2003   |
|                                                                                                                    | (Unaudited)        |                  |
| <b>Rental revenues:</b>                                                                                            |                    |                  |
| Rental income                                                                                                      | \$ 95,473          | \$ 91,510        |
| Percentage rents                                                                                                   | 2,645              | 1,640            |
| Expense reimbursements                                                                                             | 25,812             | 25,498           |
| <b>Total rental revenues</b>                                                                                       | <b>123,930</b>     | <b>118,648</b>   |
| <b>Expenses:</b>                                                                                                   |                    |                  |
| Operating costs                                                                                                    | 23,553             | 22,282           |
| Real estate and other taxes                                                                                        | 14,936             | 15,422           |
| Depreciation and amortization                                                                                      | 21,010             | 18,540           |
| Provision for doubtful accounts                                                                                    | 1,730              | 1,499            |
| General and administrative                                                                                         | 4,991              | 4,230            |
| <b>Total expenses</b>                                                                                              | <b>66,220</b>      | <b>61,973</b>    |
| <b>Income before real estate sales, impairment of real estate, minority interest and other income and expenses</b> | <b>57,710</b>      | <b>56,675</b>    |
| <b>Other income and expenses:</b>                                                                                  |                    |                  |
| Interest, dividend and other income                                                                                | 2,535              | 3,351            |
| Equity in income of unconsolidated ventures                                                                        | 230                | 473              |
| Interest expense                                                                                                   | (26,401)           | (25,770)         |
| Gain on sale of real estate                                                                                        | 1,217              |                  |
| Minority interest in income of consolidated partnership                                                            | (260)              | (401)            |
| <b>Income from continuing operations</b>                                                                           | <b>35,031</b>      | <b>34,328</b>    |
| <b>Discontinued operations:</b>                                                                                    |                    |                  |
| Income from discontinued operations (Note 5)                                                                       | 2,366              | 861              |
| <b>Net income</b>                                                                                                  | <b>\$ 37,397</b>   | <b>\$ 35,189</b> |
| Preferred dividends                                                                                                | (5,275)            | (4,859)          |
| <b>Net income available to common stock - basic</b>                                                                | <b>32,122</b>      | <b>30,330</b>    |
| Minority interest in income of consolidated partnership                                                            | 260                | 401              |
| <b>Net income available to common stock - diluted</b>                                                              | <b>\$ 32,382</b>   | <b>\$ 30,731</b> |
| <b>Basic earnings per common share:</b>                                                                            |                    |                  |
| Income from continuing operations                                                                                  | \$ 0.30            | \$ 0.30          |

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|                                                  |  |            |    |         |
|--------------------------------------------------|--|------------|----|---------|
| Discontinued operations                          |  | 0.02       |    | 0.01    |
| Basic earnings per share                         |  | \$ 0.32    | \$ | 0.31    |
| Diluted earnings per common share:               |  |            |    |         |
| Income from continuing operations                |  | \$ 0.30    | \$ | 0.30    |
| Discontinued operations                          |  | 0.02       |    | 0.01    |
| Diluted earnings per share                       |  | \$ 0.32    | \$ | 0.31    |
| Average shares outstanding                       |  |            |    |         |
| basic                                            |  | 99,419     |    | 96,937  |
| diluted                                          |  | 102,008    |    | 99,602  |
| Dividends per common share                       |  |            |    |         |
|                                                  |  | \$ 0.41250 | \$ | 0.41250 |
| Other comprehensive income:                      |  |            |    |         |
| Net income                                       |  | \$ 37,397  | \$ | 35,189  |
| Unrealized gain on available-for-sale securities |  | 123        |    | 181     |
| Realized gains on interest risk hedges, net      |  | 40         |    | 96      |
| Unrealized losses on interest risk hedges        |  | (2,499)    |    |         |
| Comprehensive income                             |  | \$ 35,061  | \$ | 35,466  |

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS****March 31, 2004 and December 31, 2003****(In thousands, except par value amounts)**

|                                                                                                                                 | March 31, 2004 | December 31, 2003 |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
|                                                                                                                                 | (Unaudited)    |                   |
| <b>ASSETS</b>                                                                                                                   |                |                   |
| Real estate:                                                                                                                    |                |                   |
| Land                                                                                                                            | \$ 860,902     | \$ 832,479        |
| Building and improvements                                                                                                       | 2,905,433      | 2,822,143         |
| Accumulated depreciation and amortization                                                                                       | (374,243)      | (360,580)         |
| Net real estate                                                                                                                 | 3,392,092      | 3,294,042         |
| Real estate held for sale                                                                                                       | 49,666         | 17,668            |
| Cash and cash equivalents                                                                                                       | 12,012         | 5,328             |
| Restricted cash                                                                                                                 | 16,940         | 23,463            |
| Marketable securities                                                                                                           | 3,038          | 2,915             |
| Receivables:                                                                                                                    |                |                   |
| Trade, less allowance for doubtful accounts of \$17,346 and \$16,950 at March 31, 2004 and December 31, 2003, respectively      | 62,042         | 63,563            |
| Other, net                                                                                                                      | 14,518         | 12,530            |
| Mortgages and notes receivable                                                                                                  | 974            | 39,637            |
| Prepaid expenses and deferred charges                                                                                           | 37,929         | 35,320            |
| Investments in/advances to unconsolidated ventures                                                                              | 38,615         | 38,958            |
| Intangible assets                                                                                                               | 30,144         | 3,201             |
| Other assets                                                                                                                    | 23,036         | 18,020            |
| Total assets                                                                                                                    | \$ 3,681,006   | \$ 3,554,645      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                      |                |                   |
| Liabilities:                                                                                                                    |                |                   |
| Mortgages payable, including unamortized premium of \$15,990 and \$16,965 at March 31, 2004 and December 31, 2003, respectively | \$ 578,622     | \$ 558,278        |
| Notes payable, net of unamortized discount of \$3,834 and \$3,116 at March 31, 2004 and December 31, 2003, respectively         | 1,050,346      | 898,164           |
| Credit facilities                                                                                                               | 221,000        | 291,000           |
| Capital leases                                                                                                                  | 28,482         | 28,562            |
| Dividends payable                                                                                                               | 46,538         | 45,695            |
| Other liabilities                                                                                                               | 99,026         | 98,842            |
| Tenant security deposits                                                                                                        | 10,412         | 10,096            |
| Total liabilities                                                                                                               | 2,034,426      | 1,930,637         |
| Minority interest in consolidated partnership                                                                                   | 23,788         | 37,865            |
| Commitments and contingencies                                                                                                   |                |                   |
| Stockholders equity:                                                                                                            |                |                   |

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|                                                                                                                                                                                                                                                                                                                                                                                                                                                            |              |              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Preferred stock, \$.01 par value, 25,000 shares authorized; Series D: 1,500 depository shares, each representing 1/10 of one share of Series D Cumulative Voting Step-Up Premium Rate Preferred, 150 shares outstanding at March 31, 2004 and December 31, 2003; Series E: 8,000 depository shares, each representing 1/10 of one share of 7.625% Series E Cumulative Redeemable Preferred, 800 shares outstanding at March 31, 2004 and December 31, 2003 | 10           | 10           |
| Common stock, \$.01 par value, 250,000 shares authorized: 100,031 and 97,980 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively                                                                                                                                                                                                                                                                                           | 1,000        | 979          |
| Additional paid-in capital                                                                                                                                                                                                                                                                                                                                                                                                                                 | 1,938,862    | 1,889,338    |
| Accumulated other comprehensive income                                                                                                                                                                                                                                                                                                                                                                                                                     | 449          | 2,785        |
| Accumulated distribution in excess of net income                                                                                                                                                                                                                                                                                                                                                                                                           | (317,529)    | (306,969)    |
| Total stockholders' equity                                                                                                                                                                                                                                                                                                                                                                                                                                 | \$ 1,622,792 | \$ 1,586,143 |
| Total liabilities and stockholders' equity                                                                                                                                                                                                                                                                                                                                                                                                                 | \$ 3,681,006 | \$ 3,554,645 |

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Three Months Ended March 31, 2004 and 2003**

**(Unaudited, in thousands)**

|                                                                                | March 31, 2004 | March 31, 2003 |
|--------------------------------------------------------------------------------|----------------|----------------|
| <b>Cash flows from operating activities:</b>                                   |                |                |
| Net income                                                                     | \$ 37,397      | \$ 35,189      |
| <b>Adjustments to reconcile net income to net cash provided by operations:</b> |                |                |
| Depreciation and amortization                                                  | 21,643         | 19,118         |
| Amortization of net premium/discount on mortgages and notes payable            | (806)          | (719)          |
| Amortization of deferred debt and loan acquisition costs                       | 373            | 691            |
| Amortization of stock options                                                  | 153            |                |
| Gain on sale of real estate, net                                               | (1,217)        |                |
| Gain on sale of discontinued operations                                        | (1,414)        | (3,483)        |
| Minority interest in income of consolidated partnership                        | 260            | 401            |
| Impairment of real estate assets                                               |                | 3,454          |
| Equity in income of unconsolidated ventures                                    | (230)          | (473)          |
| <b>Changes in operating assets and liabilities, net:</b>                       |                |                |
| Change in trade receivables                                                    | (1,442)        | (4,426)        |
| Change in other receivables                                                    | 960            | 24,821         |
| Change in other liabilities                                                    | (4,842)        | (17,789)       |
| Change in tenant security deposits                                             | 49             | 289            |
| Change in sundry assets and liabilities                                        | 3              | (3,767)        |
| Net cash provided by operating activities                                      | 50,887         | 53,306         |
| <b>Cash flows from investing activities:</b>                                   |                |                |
| Real estate acquisitions and building improvements                             | (27,044)       | (14,468)       |
| Proceeds from real estate sales, net                                           | 8,851          | 14,654         |
| Acquisition, net of cash and restricted cash received                          | (86,348)       | (69,703)       |
| Change in restricted cash                                                      | 6,668          | 31,915         |
| Repayments of mortgage notes receivable                                        | 26,497         | 39             |
| Leasing commissions paid                                                       | (3,179)        | (1,911)        |
| Cash paid for joint venture investment                                         | (8,020)        |                |
| Proceeds from sale of joint venture interest                                   | 3,790          |                |
| Capital contributions to joint ventures                                        | (436)          | (1,056)        |
| Distributions from joint ventures                                              | 1,041          | 1,071          |
| Net cash used in investing activities                                          | (78,180)       | (39,459)       |
| <b>Cash flows from financing activities:</b>                                   |                |                |
| Principal payments of mortgages and notes payable                              | (9,036)        | (121,240)      |
| Dividends paid                                                                 | (45,692)       | (44,837)       |
| Proceeds from credit facility borrowing                                        | 108,000        | 180,000        |
| Repayment of credit facility                                                   | (178,000)      |                |
| Repayment of notes payable, other                                              |                | (28,349)       |

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|                                                                   |           |           |
|-------------------------------------------------------------------|-----------|-----------|
| Financing fees paid                                               | (1,267)   | (98)      |
| Proceeds from medium term note issuance, net                      | 149,114   |           |
| Redemption of limited partnership units                           |           | (29)      |
| Proceeds from exercise of stock options                           | 9,082     | 2,205     |
| Distributions paid to minority partners                           | (1,401)   | (440)     |
| Repayment of loans receivable for the purchase of common stock    | 249       | 159       |
| Proceeds from dividend reinvestment plan                          | 2,928     |           |
| Net cash provided by (used in) financing activities               | 33,977    | (12,629)  |
| Net increase in cash and cash equivalents                         | 6,684     | 1,218     |
| Cash and cash equivalents at beginning of period                  | 5,328     | 8,528     |
| Cash and cash equivalents at end of period                        | \$ 12,012 | \$ 9,746  |
| Supplemental Cash Flow Disclosure, including Non-Cash Activities: |           |           |
| Cash paid for interest                                            | \$ 22,950 | \$ 24,878 |
| Capitalized interest                                              | 1,268     | 1,007     |
| State and local taxes paid                                        | 133       | 178       |
| Mortgages assumed                                                 | 30,275    |           |
| Partnership units issued in acquisition                           | 11,223    |           |
| Satisfaction of notes receivable                                  | 12,165    |           |

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Description of Business

New Plan Excel Realty Trust, Inc. and its subsidiaries (collectively, the Company) are operated as a self-administered, self-managed real estate investment trust (REIT). The principal business of the Company is the ownership and management of community and neighborhood shopping centers throughout the United States.

### Note 2: Summary of Significant Accounting Policies

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Excel Realty Partners, L.P. (ERP), a Delaware limited partnership (Note 9). All significant intercompany transactions and balances have been eliminated.

#### Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules of the Securities and Exchange Commission (the SEC) and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (GAAP). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income and comprehensive income for the three months ended March 31, 2004 are not necessarily indicative of the results expected for the full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

#### Net Earnings per Share of Common Stock

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (SFAS No. 128), the Company presents both basic and diluted earnings per share. Net earnings per common share (basic EPS) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Net earnings per common share assuming dilution (diluted EPS) is computed by giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon (a) the conversion of (i) preferred stock (using the if converted method), (ii) convertible debt and (iii) ERP limited partnership units, and (b) the exercise of in-the-money stock options.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid debt instruments with maturities of three months or less at acquisition. Items classified as cash equivalents include insured bank certificates of deposit and commercial paper. At times, cash balances at a limited number of banks may exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions.

Restricted Cash

Restricted cash consists primarily of cash held in escrow accounts for deferred maintenance, capital improvements, environmental expenditures, taxes, insurance, operating expenses and debt service as required by certain loan agreements. Substantially all restricted cash is invested in money market mutual funds and carried at market value.

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of \$17.3 million and \$17.0 million as of March 31, 2004 and December 31, 2003, respectively.

Real Estate

Land, buildings and building and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives; ordinary repairs and maintenance are expensed as incurred.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

|                       |                                                             |
|-----------------------|-------------------------------------------------------------|
| Buildings             | 35 to 40 years                                              |
| Building Improvements | 5 to 40 years                                               |
| Tenant Improvements   | The shorter of the term of the related lease or useful life |

Business Combinations

In connection with the Company's acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements, are determined as if vacant, that is, at replacement cost. Intangible assets, including the above-market or below-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values.

Above-market, below-market and in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market or below-market lease value is amortized as a reduction of, or increase to, rental income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market.

The total amount of other intangible assets allocated to in-place lease values and tenant relationship intangible values is based on management's evaluation of the specific characteristics of each lease and the Company's overall relationship with each tenant. Factors considered in the allocation of these values include the nature of the existing relationship with the tenant, the tenant's credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases, among other factors. Management will also consider information obtained about a property in connection with its

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pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management will estimate costs to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of a property. Independent appraisals and/or management's estimates will be used to determine these values.

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is amortized to expense over the initial and renewal terms of the leases; however, no amortization period for intangible assets will exceed the remaining depreciable life of the building.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs, in-place values and tenant relationship values, will be charged as an expense.

#### Long-Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of its real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property (taking into account the anticipated holding period of the assets) are less than the carrying value of the property. Such cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property, and reflected as an adjustment to the basis of the property.

When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the net sales price of the assets which have been identified for sale is less than the net book value of the assets, a valuation allowance is established. For investments accounted for under the equity method, a loss is recognized if the loss in value of the investment is other than temporary.

#### Employee Loans

Prior to 2001, the Company had made loans to officers, directors and employees primarily for the purpose of purchasing common stock of the Company. These loans are demand and term notes bearing interest at rates ranging from 5.0% to 8.4%. Interest is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders' equity. At March 31, 2004 and December 31, 2003, the Company had aggregate loans to employees of approximately \$0.8 million and \$1.1 million, respectively.

#### Investments in /Advances to Unconsolidated Ventures

The Company has direct equity investments in several joint venture projects. The Company accounts for these investments in unconsolidated ventures using the equity method of accounting, as the Company exercises significant influence over, but does not control and is not the primary beneficiary of, these entities. These investments are initially recorded at cost, as Investments in/advances to unconsolidated ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions.

#### Deferred Leasing and Loan Origination Costs

Costs incurred in obtaining tenant leases (including internal leasing costs) are amortized using the straight-line method over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early

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termination of the lease. Costs incurred in obtaining long-term financing are amortized and charged to interest expense over the terms of the related debt agreements, which approximates the effective interest method.

### Internal Leasing Costs

Effective January 1, 2002, the Company commenced capitalizing internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. At March 31, 2004 and December 31, 2003, approximately \$10.9 million and \$8.9 million of internal leasing costs had been capitalized, respectively.

Derivative/Financial Instruments

The Company accounts for derivative and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ) and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These accounting standards require the Company to measure derivatives, including certain derivatives embedded in other contracts, at fair value and to recognize them in the Consolidated Balance Sheet as assets or liabilities, depending on the Company's rights or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income ( OCI ) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging instruments and ineffective portions of hedges are recognized in earnings in the current period.

Self-Insured Health Plan

Beginning in May 2003, the Company implemented a self-insured health plan for all of its employees. In order to limit its exposure, the Company has purchased stop-loss insurance, which will reimburse the Company for individual claims in excess of \$0.1 million annually, or aggregate claims in excess of \$1.0 million annually. Self-insurance losses are accrued based on the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions adhered to in the insurance industry. The liability for self-insured losses is included in accrued expenses and was approximately \$0.5 million at March 31, 2004.

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as deferred rent receivable, and is included in trade receivables on the accompanying consolidated balance sheets. Certain leases provide for percentage rents based upon the level of sales achieved by the lessee. These percentage rents are recorded once the required sales levels are achieved. The leases also typically provide for tenant reimbursement of common area maintenance and other operating expenses.

Income from Discontinued Operations

Income from discontinued operations is computed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ). SFAS No. 144 requires, among other things, that the primary assets and liabilities and the results of operations of the Company's real properties which have been sold during 2002 or thereafter, or otherwise qualify as held for sale (as defined by SFAS No. 144), be classified as discontinued operations and segregated in the Company's Consolidated Statements of Income and Comprehensive Income and Consolidated Balance Sheets. Properties classified as real estate held for sale generally represent properties that are under contract for sale and are expected to close within the next twelve months.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ). In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to the stockholders. Accordingly, no provision for federal income taxes is included in the accompanying consolidated financial statements. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT.

Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in real estate and other taxes in the Company's consolidated statements of income and comprehensive income.

The Company may elect to treat one or more of its subsidiaries as a taxable REIT subsidiary ( TRS ). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care 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 health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRSs. At March 31, 2004, the Company's TRSs had a tax net operating loss ( NOL ) carryforward of approximately \$16.3 million, expiring from 2013 to 2016.

#### Segment Information

The principal business of the Company is the ownership and management of community and neighborhood shopping centers. The Company does not distinguish or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single reportable segment for disclosure purposes in accordance with accounting principles generally accepted in the United States. Further, all operations are within the United States and no tenant comprises more than 10% of revenue.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant assumptions and estimates relate to impairments of real estate, recovery of mortgage notes and trade accounts receivable and depreciable lives.

#### Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

#### Recently Issued Accounting Standards

In the fourth quarter of 2003, the Emerging Issues Task Force ( EITF ) issued EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ). EITF 00-21 provides guidance on revenue recognition for revenues derived from a single contract that contains multiple products or services. EITF 00-21 also provides additional requirements for determining when these revenues may be recorded separately for accounting purposes. EITF 00-21 did not impact the consolidated financial statements of the Company.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin ( SAB ) No. 104, *Revenue Recognition* ( SAB 104 ), which supercedes SAB 101, *Revenue Recognition in Financial Statements*. The primary purpose of SAB 104 is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of EITF 00-21. SAB 104 did not impact the consolidated financial statements of the Company.

In May 2003, the Financial Accounting Standards Board ( FASB ) issued Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ( SFAS No. 150 ). This statement established principles for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a

liability (or an asset in some circumstances). Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the interim period beginning after June 15, 2003. The initial adoption of SFAS No. 150 did not have a material impact on the consolidated financial statements of the Company.

In April 2003, FASB issued Statement 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ( SFAS No. 149 ). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 improves financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as defined by SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to the language used in FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and (4) amends certain other existing pronouncements. These changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and its initial adoption did not have a material impact on the consolidated financial statements of the Company.

In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ( FIN 46 ), an interpretation of Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements*. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights, variable interest entities ( VIE ), and how to determine when and which business enterprises should consolidate the VIE. In addition, FIN 46 requires both the primary beneficiary and all other enterprises with significant variable interests in VIE to make additional disclosures. The transitional disclosure requirements are required for all financial statements initially issued after January 31, 2003. The consolidation provisions of FIN 46 are effective immediately for variable interests in VIE created after January 31, 2003. FIN 46 was deferred until the quarter ended March 31, 2004 for variable interests in VIE created before February 1, 2003. In December 2003, the FASB issued a revised FIN 46, which modified and clarified various aspects of the original interpretation. Under the revised guidance, FIN 46 applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interest. The initial adoption of FIN 46 did not have a material impact on the consolidated financial statements of the Company. The Company s maximum exposure to loss as a result of its involvement with potential VIE is described in Note 6.

In December 2002, FASB issued Statement 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FAS 123* ( SFAS No. 148 ). This statement provides alternative transition methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However, SFAS No. 148 does not permit the use of the original FAS 123 prospective method of transition for changes to fair value based methods made in fiscal years beginning after December 15, 2003. In addition, SFAS No. 148 amends the disclosure requirements of Statement No. 123, *Accounting for Stock Based Compensation* ( SFAS No. 123 ), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of the transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are to be applied for fiscal years ending after December 15, 2002. The interim disclosure provisions of SFAS No. 148 are effective for the first interim period beginning after December 15, 2002. Effective January 1, 2003, the Company adopted the prospective method provisions of SFAS No. 148, which apply the recognition provisions of FAS 123 to all employee stock awards granted, modified or settled after January 1, 2003. The adoption of SFAS No. 148 did not have a material impact on the consolidated financial statements of the Company.

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With respect to the Company's stock options which were granted prior to 2003, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ), and related interpretations. Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted closing market price of the Company's stock on the business day preceding the grant date. Accordingly, no compensation cost has been recognized under the Company's stock option plans for the granting of stock options made prior to December 31, 2002.

SFAS No. 148 disclosure requirements, including the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested stock awards in each period are presented below (in thousands, except per share amounts):

|                                                                                                                                     | March 31, 2004 | March 31, 2003 |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Net income, as reported                                                                                                             | \$ 37,397      | \$ 35,189      |
| Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (310)          | (491)          |
| Pro forma net income                                                                                                                | \$ 37,087      | \$ 34,698      |
| <b>Earnings per share:</b>                                                                                                          |                |                |
| Basic as reported                                                                                                                   | \$ 0.32        | \$ 0.31        |
| Basic pro forma                                                                                                                     | \$ 0.32        | \$ 0.31        |
| Diluted as reported                                                                                                                 | \$ 0.32        | \$ 0.31        |
| Diluted pro forma                                                                                                                   | \$ 0.31        | \$ 0.30        |

### **Note 3: Acquisitions and Dispositions**

#### Acquisitions

During the three months ended March 31, 2004, the Company acquired the remaining 50% interest in Clearwater Mall, increasing the Company's ownership interest to 100% from 50% (the Clearwater Mall Acquisition). Also during the three months ended March 31, 2004, the Company acquired four shopping centers - New Britain Village Square, Elk Grove Town Center, Villa Monaco and Florence Square. The remaining 50% interest in Clearwater Mall, a community shopping center encompassing a 72-acre site with 292,402 square feet of leased space located in Clearwater, Florida, was acquired on January 30, 2004 for approximately \$30.0 million. Subsequent to the completion of the Clearwater Mall Acquisition, the results of operations of this property were included in the consolidated results of operations of the Company. New Britain Village Square, a 143,716 square foot shopping center located in Chalfont, Pennsylvania, was acquired on January 9, 2004 for approximately \$23.4 million, consisting of the issuance of \$11.2 million in ERP limited partnership units and the assumption of a \$12.2 million mortgage loan previously made by the Company to the seller. Elk Grove Town Center, a 131,849 square foot shopping center located in Elk Grove Village, Illinois, was acquired on January 30, 2004 for approximately \$21.0 million, including the assumption of \$14.5 million of mortgage indebtedness. Villa Monaco, a 122,763 square foot shopping center located in Denver, Colorado, was acquired on February 19, 2004 for \$12.0 million. Florence Square, a 360,608 square foot shopping center located in Florence, Kentucky, was acquired on March 17, 2004 for

approximately \$39.5 million, including the assumption of \$15.8 million of mortgage indebtedness.

In connection with the above acquisitions, and in compliance with the Company's business combination policy, the Company allocated approximately \$27.0 million to leases acquired. Of this amount, approximately \$26.0 million was attributable to the value of in-place leases at the time of acquisition, approximately \$0.8 million was attributable to leasing commissions and approximately \$0.2 million was attributable to legal fees. The \$27.0 million was recorded in intangible assets on the Company's consolidated balance sheets.

In fiscal 2003, the Company acquired the remaining 50% interest in Vail Ranch II that it did not already own, a portfolio of seven grocery-anchored neighborhood shopping centers and three other individual properties—Panama City Square, Harpers Station and Dickson City Crossings. On January 3, 2003, the Company acquired a portfolio of seven grocery-anchored neighborhood shopping centers located in Michigan and aggregating 534,386 square feet for approximately \$46 million in cash (the Spartan Acquisition). The cash component of the Spartan Acquisition was financed through borrowings under the Company's \$350 million revolving credit facility. The remaining 50% interest in Vail Ranch II, a 105,000 square foot shopping center located in Temecula, California, was acquired on February 25, 2003 for approximately \$1.5 million in cash and the satisfaction of \$9.0 million of mortgage indebtedness. Subsequent to the acquisition of the remaining 50% interest in Vail Ranch II, the results of operations of this property were included in the consolidated results of operations of the Company. Panama City Square, a 289,119 square foot shopping center located in Panama City, Florida, was acquired on June 25, 2003 for approximately \$18.3 million, including the assumption of \$12.7 million of mortgage indebtedness. Harpers Station, a 240,681 square foot shopping center located in Cincinnati, Ohio, was acquired on September 11, 2003 for approximately \$23.8 million, including the assumption of approximately \$13.0 million of mortgage indebtedness. Dickson City Crossings, a 301,462 square foot shopping center located in Dickson City, Pennsylvania, was acquired on September 30, 2003 for approximately \$28.1 million, including the assumption of approximately \$14.8 million of mortgage indebtedness.

In connection with the acquisition of Harpers Station and Dickson City Crossings, and in compliance with the Company's business combination policy, the Company allocated approximately \$3.2 million to leases acquired. Of this amount, approximately \$2.4 million was attributable to the value of in-place leases at the time of acquisition, and approximately \$0.8 million was attributable to leasing commissions. This amount was recorded in intangible assets on the Company's consolidated balance sheets.

#### Dispositions

During the three months ended March 31, 2004, the Company sold two properties and one land parcel for aggregate gross proceeds of approximately \$9.3 million. In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5).

During 2003, the Company sold 24 properties, six land parcels and 70% of its ownership interest in Arapahoe Crossings, LP for aggregate gross proceeds of approximately \$117.1 million. In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5). The results of operations from Arapahoe Crossings, LP are not considered to be income from discontinued operations due to the Company's continued involvement in its operations as a result of the Company's retained 30% joint venture interest.

#### **Note 4: Real Estate Held for Sale**

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As of March 31, 2004, eight retail properties and one land parcel were classified as Real estate held for sale. These properties are located in seven states and have an aggregate gross leasable area of approximately 1.1 million square feet. Such properties had an aggregate book value of approximately \$49.7 million, net of accumulated depreciation of approximately \$7.8 million and impairment of \$2.4 million. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any properties classified as held for sale subsequent to December 31, 2001 as income from discontinued operations (Note 5).

As of December 31, 2003, four retail properties and one land parcel were classified as Real estate held for sale. These properties were located in five states and had an aggregate gross leasable area of approximately 0.4 million square feet. Such properties had an aggregate book value of approximately \$17.7 million, net of accumulated depreciation of approximately \$2.4 million and impairment of \$2.4 million, as of December 31, 2003. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any properties classified as held for sale subsequent to December 31, 2001 as income from discontinued operations (Note 5).

**Note 5: Income from Discontinued Operations**

The following is a summary of income from discontinued operations for the three months ended March 31, 2004 and 2003 (in thousands):

|                                                                               | Three Months Ended<br>March 31, |                |
|-------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                               | 2004                            | 2003           |
| <b>Total revenue</b>                                                          |                                 |                |
| Real estate held for sale                                                     | \$ 2,346                        | \$ 2,302       |
| Other discontinued operations                                                 | 234                             | 1,414          |
| <b>Total revenue</b>                                                          | <b>2,580</b>                    | <b>3,716</b>   |
| <b>Operating costs</b>                                                        |                                 |                |
| Real estate held for sale                                                     | (753)                           | (810)          |
| Other discontinued operations                                                 | (28)                            | (333)          |
| <b>Real estate taxes</b>                                                      |                                 |                |
| Real estate held for sale                                                     | (193)                           | (247)          |
| Other discontinued operations                                                 | (69)                            | (209)          |
| <b>Interest expense</b>                                                       |                                 |                |
| Real estate held for sale                                                     | (58)                            | (292)          |
| Other discontinued operations                                                 |                                 |                |
| <b>Depreciation and amortization</b>                                          |                                 |                |
| Real estate held for sale                                                     | (253)                           | (341)          |
| Other discontinued operations                                                 | (1)                             | (237)          |
| <b>Provision for doubtful accounts</b>                                        |                                 |                |
| Real estate held for sale                                                     | (105)                           | (313)          |
| Other discontinued operations                                                 | (168)                           | (102)          |
| <b>Total operating costs</b>                                                  | <b>(1,628)</b>                  | <b>(2,884)</b> |
| <b>Income from discontinued operations before impairment and gain on sale</b> | <b>952</b>                      | <b>832</b>     |
| <b>Impairment of real estate held for sale</b>                                |                                 | <b>(3,454)</b> |
| <b>Gain on sale of other discontinued operations</b>                          | <b>1,414</b>                    | <b>3,483</b>   |
| <b>Income from discontinued operations</b>                                    | <b>\$ 2,366</b>                 | <b>\$ 861</b>  |



**Note 6: Investments in/Advances to Unconsolidated Ventures**

At March 31, 2004, the Company had investments in five joint ventures: (1) Arapahoe Crossings, LP, (2) Benbrooke Ventures, (3) CA New Plan Venture Fund, (4) NP / I&G Institutional Retail Company, LLC and (5) Preston Ridge, which consists of The Centre at Preston Ridge, The Market at Preston Ridge and undeveloped land parcels. The Company accounts for these investments using the equity method. The following table summarizes the joint venture projects as of March 31, 2004 and December 31, 2003 (in thousands):

|                                                                 | City            | State | JV Partner              | Percent Ownership | Investments in/Advances to<br>March 31,<br>2004 | December 31,<br>2003 |
|-----------------------------------------------------------------|-----------------|-------|-------------------------|-------------------|-------------------------------------------------|----------------------|
| <b><u>Arapahoe Crossings, LP</u></b>                            |                 |       |                         |                   |                                                 |                      |
| Arapahoe Crossings (1)                                          | Aurora          | CO    | Foreign Investor        | 30%               | \$ 6,697                                        | \$ 6,599             |
| <b><u>Benbrooke Ventures (2)</u></b>                            |                 |       |                         |                   |                                                 |                      |
| Rodney Village                                                  | Dover           | DE    | Benbrooke Partners      | 50%               | \$ 4,079                                        | \$ 8,249             |
| <b><u>CA New Plan Venture Fund (3)</u></b>                      |                 |       |                         |                   |                                                 |                      |
| Ventura Downs                                                   | Kissimmee       | FL    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Flamingo Falls                                                  | Pembroke Pines  | FL    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Sarasota Village                                                | Sarasota        | FL    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Atlantic Plaza                                                  | Satellite Beach | FL    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Mableton Walk                                                   | Mableton        | GA    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Raymond Road                                                    | Jackson         | MS    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Mint Hill Festival                                              | Charlotte       | NC    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Ladera                                                          | Albuquerque     | NM    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Harwood Central Village                                         | Bedford         | TX    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Odessa-Winwood Town Center                                      | Odessa          | TX    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Ridglea Plaza                                                   | Fort Worth      | TX    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Marketplace at Wycliff                                          | Lake Worth      | FL    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Spring Valley Crossing                                          | Dallas          | TX    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| Windvale                                                        | The Woodlands   | TX    | Major U.S. Pension Fund | 10%               | *                                               | *                    |
| <b><i>In Process Development / Redevelopment Properties</i></b> |                 |       |                         |                   |                                                 |                      |
| Clinton Crossings                                               | Clinton         | MS    |                         | 10%               | *                                               | *                    |

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Major U.S.  
Pension Fund

|  |  |  |  |  |          |          |
|--|--|--|--|--|----------|----------|
|  |  |  |  |  | \$ 6,195 | \$ 6,267 |
|--|--|--|--|--|----------|----------|

**Clearwater Mall, LLC**

|                 |            |    |                     |     |    |          |
|-----------------|------------|----|---------------------|-----|----|----------|
| Clearwater Mall | Clearwater | FL | The Sembler Company | (4) | \$ | \$ 4,225 |
|-----------------|------------|----|---------------------|-----|----|----------|

**NP/I&G Institutional Retail Company, LLC (3)**

|                         |            |    |                                   |     |           |          |
|-------------------------|------------|----|-----------------------------------|-----|-----------|----------|
| <b>(5)</b>              |            |    |                                   |     |           |          |
| DSW Plaza at Lake Grove | Lake Grove | NY | JPMorgan Fleming Asset Management | 20% | *         | *        |
| Conyers Crossroads      | Conyers    | GA | JPMorgan Fleming Asset Management | 20% | *         | *        |
|                         |            |    |                                   |     | \$ 12,544 | \$ 4,349 |

**Preston Ridge**

|                                 |        |    |                                               |     |             |             |
|---------------------------------|--------|----|-----------------------------------------------|-----|-------------|-------------|
| The Centre at Preston Ridge (1) | Frisco | TX | Foreign Investor/George Allen/Milton Schaffer | 25% | *           | *           |
| The Market at Preston Ridge (6) | Frisco | TX | George Allen/Milton Schaffer                  | 50% | *           | *           |
| Undeveloped land parcels (6)    | Frisco | TX | George Allen/Milton Schaffer                  | 50% | *           | *           |
|                                 |        |    |                                               |     | \$ 9,100(7) | \$ 9,269(7) |

**Investments in/Advances to Unconsolidated Ventures** \$ 38,615 \$ 38,958

\* Multiple properties held in a single investment joint venture.

(1) The Company receives increased participation after a 10% return.

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- (2) The Company receives an 8.5% preferred return on its investment. As of December 31, 2003, this venture also owned Fruitland Plaza. Fruitland Plaza was sold in January 2004.
- (3) The Company receives increased participation after a 12% IRR.
- (4) As of December 31, 2003, the Company's ownership percentage in this joint venture was 50%. On January 30, 2004, the Company purchased the remaining 50% interest in Clearwater Mall not previously owned. Accordingly, the results of operations for this property subsequent to the acquisition of the remaining 50% interest have been included in the consolidated results of operations of the Company. Prior to the acquisition of the remaining 50% interest, the Company received a 9.5% preferred return on its investment.
- (5) As of December 31, 2003, NP / I&G Institutional Retail Company, LLC had approximately \$26.4 million of outstanding notes, payable to the Company. The note was repaid in full during the first quarter of 2004.
- (6) The Company receives a 10% preferred return on its investment.
- (7) The Company's investment balance includes approximately \$2.9 million of outstanding notes receivable relating to a mortgage loan on the undeveloped land parcels payable to the Company.

Combined summary unaudited financial information for the Company's investments in/advances to unconsolidated ventures was as follows (in thousands):

| Condensed Combined Balance Sheets                       | March 31, 2004    | December 31, 2003 |
|---------------------------------------------------------|-------------------|-------------------|
| Cash and cash equivalents                               | \$ 9,320          | \$ 10,170         |
| Receivables                                             | 6,832             | 7,447             |
| Property and equipment, net of accumulated depreciation | 391,755           | 395,548           |
| Other assets, net of accumulated amortization           | 8,506             | 9,700             |
| <b>Total Assets</b>                                     | <b>\$ 416,413</b> | <b>\$ 422,865</b> |
| Long-term debt                                          | \$ 253,201        | \$ 284,713        |
| Accrued interest                                        | 1,333             | 1,304             |
| Other liabilities                                       | 7,304             | 7,764             |
| <b>Total liabilities</b>                                | <b>261,838</b>    | <b>293,781</b>    |
| <b>Total partners' capital</b>                          | <b>154,575</b>    | <b>129,084</b>    |
| <b>Total liabilities and partners' capital</b>          | <b>\$ 416,413</b> | <b>\$ 422,865</b> |
| Company's investments in/advances to                    | \$ 38,615         | \$ 38,958         |

| Condensed Combined Statements of Income | Three Months Ended |          |
|-----------------------------------------|--------------------|----------|
|                                         | 2004               | 2003     |
| Rental revenues                         | \$ 14,500          | \$ 9,447 |
| Operating expenses                      | (5,174)            | (2,947)  |
| Interest expense                        | (3,520)            | (2,651)  |

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|                                   |          |          |
|-----------------------------------|----------|----------|
| Other expense, net                | (2,465)  | (1,241)  |
| Loss on sale of real estate       | (958)    |          |
| Net income                        | \$ 2,383 | \$ 2,608 |
| Company's share of net income (1) | \$ 230   | \$ 473   |

(1) Includes preferred returns of \$0.2 million for the three months ended March 31, 2004 and 2003, respectively.

The following is a brief summary of the joint venture obligations that the Company had as of March 31, 2004:

*NP / I&G Institutional Retail Company, LLC.* In November 2003, the Company formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned two retail properties as of March 31, 2004. Under the terms of this joint venture, the Company has a 20% interest in the venture and is responsible for contributing its pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$30.0 million, of which approximately \$12.1 million had been contributed by the Company as of March 31, 2004. The Company anticipates contributing the remaining \$17.9 million during 2004 and 2005. As of March 31, 2004, the joint venture had a mortgage loan outstanding of approximately \$27.0 million.

*CA New Plan Venture Fund.* The Company, together with a third party institutional investor, has an investment in a joint venture which owned 14 operating retail properties and one retail property under redevelopment as March 31, 2004. Under the terms of this joint venture, the Company has a 10% interest in the venture, and is responsible for contributing its pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$8.3 million, of which approximately \$5.4 million had been contributed by the Company as of March 31, 2004. The Company anticipates contributing the remaining \$2.9 million during the remainder of 2004. The joint venture had loans outstanding of approximately \$99.1 million as of March 31, 2004.

*Arapahoe Crossings, LP.* On September 30, 2003, a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in Arapahoe Crossings, reducing the Company's ownership interest from 100% to 30%. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$49.9 million as of March 31, 2004.

*Benbrooke Ventures.* The Company has an investment in a joint venture which owned a community and neighborhood shopping center, located in Dover, Delaware, as of March 31, 2004. Under the terms of this joint venture, the Company has a 50% interest in the venture; however, the Company has agreed to contribute 80% of any capital required by the joint venture. The Company does not, however, expect that any significant capital contributions will be required.

*Preston Ridge.* The Company has investments in various joint ventures that own two community shopping centers (The Centre at Preston Ridge and The Market at Preston Ridge), and undeveloped land in Frisco, Texas.

*The Centre at Preston Ridge.* Under the terms of this joint venture, the Company has a 25% interest in a venture that owns The Centre at Preston Ridge. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$69.8 million as of March 31, 2004.

*The Market at Preston Ridge.* The Company has a 50% investment in a joint venture that owns The Market at Preston Ridge. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture has loans outstanding of approximately \$4.6 million as of March 31, 2004.

*Undeveloped Land Parcel.* The Company has a 50% investment in a joint venture that owns approximately 38.6 acres of undeveloped land in Frisco, Texas. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. As of March 31, 2004, the joint venture had a mortgage loan outstanding of approximately \$2.9 million, payable to the Company. This loan is reflected by the Company as part of its investment in the joint venture.

**Note 7: Debt Obligations**

As of March 31, 2004 and December 31, 2003, the Company had debt obligations under various arrangements with financial institutions as follows (in thousands):

|                                        | Maximum<br>Amount<br>Available | Carrying Value as of |                      | Stated<br>Interest<br>Rates | Scheduled<br>Maturity<br>Date |
|----------------------------------------|--------------------------------|----------------------|----------------------|-----------------------------|-------------------------------|
|                                        |                                | March 31,<br>2004    | December 31,<br>2003 |                             |                               |
| <b><u>CREDIT FACILITIES</u></b>        |                                |                      |                      |                             |                               |
| Fleet Revolving Facility               | \$ 350,000                     | \$ 121,000           | \$ 191,000           | LIBOR + 105 bp (1)          | April 2005                    |
| Fleet Secured Term Loan                | 100,000(2)                     | 100,000              | 100,000              | LIBOR + 125 bp (1)          | September 2006                |
| Total Credit Facilities                | \$ 450,000                     | \$ 221,000           | \$ 291,000           |                             |                               |
| <b><u>MORTGAGES PAYABLE</u></b>        |                                |                      |                      |                             |                               |
| Fixed Rate Mortgages                   |                                | \$ 537,561           | \$ 530,640           | 6.670 - 9.625%              | 2004 - 2028                   |
| Variable Rate Mortgages                |                                | 25,071               | 10,673               | Variable (3)                | 2006 - 2011                   |
| Total Mortgages                        |                                | 562,632              | 541,313              |                             |                               |
| Net unamortized premium                |                                | 15,990               | 16,965               |                             |                               |
| Total Mortgages, net                   |                                | \$ 578,622           | \$ 558,278           |                             |                               |
| <b><u>NOTES PAYABLE</u></b>            |                                |                      |                      |                             |                               |
| 6.88% unsecured notes                  |                                | \$ 75,000            | \$ 75,000            | 6.875%                      | October 2004                  |
| 7.75% unsecured notes                  |                                | 100,000              | 100,000              | 7.750%                      | April 2005                    |
| 7.35% unsecured notes                  |                                | 30,000               | 30,000               | 7.350%                      | June 2007                     |
| 5.88% unsecured notes                  |                                | 250,000              | 250,000              | 5.875%                      | June 2007                     |
| 7.40% unsecured notes                  |                                | 150,000              | 150,000              | 7.400%                      | September 2009                |
| 4.50% unsecured notes (4)              |                                | 150,000              |                      | 4.500%                      | February 2011                 |
| 5.50% unsecured notes                  |                                | 50,000               | 50,000               | 5.500%                      | November 2013                 |
| 3.75% unsecured notes (5)              |                                | 115,000              | 115,000              | 3.750%                      | June 2023                     |
| 7.97% unsecured notes                  |                                | 10,000               | 10,000               | 7.970%                      | August 2026                   |
| 7.65% unsecured notes                  |                                | 25,000               | 25,000               | 7.650%                      | November 2026                 |
| 7.68% unsecured notes                  |                                | 10,000               | 10,000               | 7.680%                      | November 2026                 |
| 7.68% unsecured notes                  |                                | 10,000               | 10,000               | 7.680%                      | November 2026                 |
| 6.90% unsecured notes                  |                                | 25,000               | 25,000               | 6.900%                      | February 2028                 |
| 6.90% unsecured notes                  |                                | 25,000               | 25,000               | 6.900%                      | February 2028                 |
| 7.50% unsecured notes                  |                                | 25,000               | 25,000               | 7.500%                      | July 2029                     |
| Total Notes                            |                                | 1,050,000            | 900,000              |                             |                               |
| Net unamortized discount               |                                | (3,834)              | (3,116)              |                             |                               |
| Impact of pay-floating swap agreements |                                | 4,180                | 1,280                |                             |                               |
| Total Notes, net                       |                                | \$ 1,050,346         | \$ 898,164           |                             |                               |
| CAPITAL LEASES                         |                                | \$ 28,482            | \$ 28,562            | 7.500%                      | June 2031                     |

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|            |    |           |    |           |
|------------|----|-----------|----|-----------|
| TOTAL DEBT | \$ | 1,878,450 | \$ | 1,776,004 |
|------------|----|-----------|----|-----------|

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- (1) The Company incurs interest using the 30-day LIBOR rate which was 1.09% as of March 31, 2004. The interest rate on this facility adjusts based on the Company's credit rating.
- (2) Under certain circumstances, the maximum amount available under this facility may be increased to \$150 million.
- (3) As determined by the applicable loan agreement, the Company incurs interest on these obligations using either the 30-day LIBOR rate, Moody's A Corporate Bond Index, or a rate determined by the appropriate remarketing agent plus spreads ranging from 125 to 375 basis points.
- (4) The Company has entered into reverse interest rate swaps that effectively converted the interest rate on \$100 million of the notes from a fixed rate to a blended floating rate of 39 basis points over the 6-month LIBOR rate.
- (5) Represents the Company's convertible senior notes.

The Company has a \$350 million senior unsecured revolving credit facility (the Fleet Revolving Facility), which matures on April 25, 2005, with a one-year extension option. As of March 31, 2004, the Fleet Revolving Facility bore interest at LIBOR plus 105 basis points, based on the Company's current debt rating.

The Company also has a \$100 million secured term loan facility (the Fleet Secured Term Loan). This facility matures on September 29, 2006, and under certain circumstances, the amount of the facility may be increased to \$150 million. The Fleet Secured Term Loan contains all of the covenants that are present in the Fleet Revolving

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Facility, as amended, as well as certain additional covenants relating to the operating performance of certain properties that collateralize the Fleet Secured Term Loan. As of March 31, 2004, the Fleet Secured Term Loan bore interest at LIBOR plus 125 basis points, based on the Company's current debt rating.

The Fleet Revolving Facility and the Fleet Secured Term Loan require that the Company maintain certain financial coverage ratios. These coverage ratios currently include:

net operating income of unencumbered assets to interest on unsecured debt ratio of at least 2:1

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately \$1.3 billion

total debt to total adjusted assets of no more than 57.5%

total secured debt to total adjusted assets of no more than 40%

unsecured debt to unencumbered assets value ratio of no more than 55%

book value of ancillary assets to total adjusted assets of no more than 25%

book value of new construction assets to total adjusted assets of no more than 15%

Funds from Operations (as defined in the applicable debt agreement) payout ratio no greater than 95%

On February 6, 2004, the Company completed a public offering of \$150 million aggregate principal amount of unsecured, 7-year fixed rate notes with a coupon of 4.50% (the 2004 Debt Offering). These notes are due on February 1, 2011. The notes were priced at 99.409% of par value to yield 4.6%. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under the Fleet Revolving Facility. On January 30, 2004, concurrent with the pricing of the offering, the Company entered into reverse interest rate swaps that effectively converted the interest rate on \$100 million of the notes from a fixed rate to a blended floating rate of 39 basis points over the 6-month LIBOR rate.

On November 20, 2003, the Company completed a public offering of \$50 million aggregate principal amount of unsecured, 10-year fixed rate notes with a coupon of 5.50% (the Medium-Term Notes Offering). The notes are due on November 20, 2013. The notes were priced at 99.499% of par value to yield 5.566%. Net proceeds from the offering were used to repay \$49 million of 7.33% notes scheduled to mature on November 20, 2003.

On May 19, 2003, the Company completed a public offering of \$100 million aggregate principal amount of 3.75% convertible senior notes due June 2023 (the Convertible Debt Offering). On June 10, 2003, the underwriters exercised their over-allotment option in full and purchased an additional \$15 million aggregate principal amount of the notes. The notes are convertible into common stock of the Company upon the occurrence of certain events, as discussed below, at an initial conversion price of \$25.00 per share. Holders may convert their notes into shares

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of the Company's common stock (or cash, or a combination of cash and shares of common stock, at the Company's option) under any of the following circumstances: (i) during any calendar quarter (and only during such calendar quarter) if the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the applicable conversion price on such last trading day; (ii) if the notes have been called for redemption; (iii) upon the occurrence of certain specified corporate transactions. The notes may not be redeemed by the Company prior to June 9, 2008, but are redeemable for cash, in whole or in part, any time thereafter. The net proceeds to the Company from the offering were approximately \$112 million and were used to repay a portion of the borrowings outstanding under the Fleet Revolving Facility.

As of March 31, 2004, future expected/scheduled maturities of outstanding long-term debt and capital lease obligations were as follows (in thousands):

|                                                       |    |           |
|-------------------------------------------------------|----|-----------|
| 2004 (remaining nine months)                          | \$ | 107,464   |
| 2005                                                  |    | 294,870   |
| 2006                                                  |    | 143,753   |
| 2007                                                  |    | 320,598   |
| 2008                                                  |    | 187,382   |
| Thereafter                                            |    | 808,047   |
| Total debt maturities                                 |    | 1,862,114 |
| Net unamortized premiums on mortgages                 |    | 15,990    |
| Net unamortized discount on notes                     |    | (3,834)   |
| Fair value adjustment on pay-floating swap agreements |    | 4,180     |
| Total debt obligations                                | \$ | 1,878,450 |

#### **Note 8: Risk Management and Use of Financial Instruments**

##### Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of default on the Company's operations and tenants' inability or unwillingness to make contractually required payments. Market risk changes in the value of the properties held by the Company due to changes in interest rates or other market factors.

##### Use of Derivative Financial Instruments

The Company's use of derivative instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to manage the risks and/or costs associated with the Company's operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company does not use derivative instruments to hedge credit/market risk.

We have an existing reverse arrears swap agreement, which was entered into during 2002, with a notional amount of \$50 million, under which we receive the difference between the fixed rate of the swap, 4.357%, and the floating rate option, which is the 6-month LIBOR rate, in arrears. On January 30, 2004, concurrent with the pricing of the 2004 Debt Offering, the Company entered into three additional reverse arrears swap

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agreements that effectively converted the interest rate on \$100 million of the debt from a fixed rate to a blended floating rate of 39 basis points over the 6-month LIBOR rate. These swaps will terminate on February 1, 2011.

During the three months ended March 31, 2004, in order to mitigate the potential risk of adverse changes in the LIBOR swap rate, the Company entered into four 10-year forward starting interest rate swap agreements for an aggregate of approximately \$100 million in notional amount. These derivative instruments are expected to be used to hedge the risk of changes in interest cash outflows on anticipated fixed rate financings by effectively locking the 3-month LIBOR swap rate. The gain or loss on the swaps will be deferred in accumulated other comprehensive income and will be amortized into earnings as an increase/decrease in effective interest expense during the same period or periods in which the hedged transaction affects earnings.

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The following table summarizes the terms and fair values of the Company's derivative financial instruments at March 31, 2004 (in thousands). The notional amounts at March 31, 2004 provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

| Hedge Product         | Hedge Type | Notional Amount | Strike | Maturity | Fair Value |
|-----------------------|------------|-----------------|--------|----------|------------|
| Reverse Arrears Swap  | Fair Value | \$ 50,000       | 4.357% | 10/15/04 | \$ 1,490   |
| Reverse Arrears Swap  | Fair Value | 50,000          | 4.380% | 02/01/11 | 1,374      |
| Reverse Arrears Swap  | Fair Value | 35,000          | 4.048% | 02/01/11 | 933        |
| Reverse Arrears Swap  | Fair Value | 15,000          | 4.030% | 02/01/11 | 383        |
| Forward Starting Swap | Cash Flow  | 25,000          | 4.767% | 10/15/14 | (567)      |
| Forward Starting Swap | Cash Flow  | 25,000          | 4.805% | 10/15/14 | (645)      |
| Forward Starting Swap | Cash Flow  | 25,000          | 5.053% | 04/06/15 | (658)      |
| Forward Starting Swap | Cash Flow  | 25,000          | 5.039% | 04/06/15 | (629)      |
|                       |            |                 |        |          | \$ 1,681   |

On March 31, 2004, the reverse arrears swap agreements and the forward starting swap agreements were reported at their fair values as Other Assets of \$4.2 million and Other Liabilities of \$2.5 million, respectively. Additionally, the reverse arrears swap debt of approximately \$4.2 million at March 31, 2004 was reported as a component of the notes payable to which it was assigned. As of March 31, 2004, there were approximately \$1.6 million in deferred losses represented in OCI, representing the unamortized portion of the settled swaps, as well as the unsettled portion of the forward starting swap agreements.

Over time, the unrealized gains and losses held in OCI will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. Approximately \$0.1 million of expense, net is expected to be amortized into other comprehensive income over the next 9 months. The current balance held in OCI is expected to be reclassified to earnings over the lives of the current hedging instruments, or for realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable.

### Concentration of Credit Risk

A concentration of credit risk arises in the Company's business when a national or regionally-based tenant occupies a substantial amount of space in multiple properties owned by the Company. In that event, if the tenant suffers a significant downturn in its business, it may become unable to make its contractual rent payments to the Company, exposing the Company to a potential loss in rental revenue that is magnified as a result of the tenant renting space in multiple locations. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No tenant exceeds 5% of annual reported rental income.

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In 1995, ERP, a consolidated entity, was formed to own certain real estate properties. A wholly owned subsidiary of the Company is the sole general partner of ERP and is entitled to receive 99% of all net income and gains before depreciation, if any, after the limited partners receive their preferred cash and gain allocations. Properties have been contributed to ERP in exchange for limited partnership units (which may be redeemed at stipulated prices for cash or, at the Company's option, shares of common stock of the Company), cash and the assumption of mortgage indebtedness. These units are redeemable for shares of common stock of the Company at exchange ratios from 1.0 to 1.4 shares of common stock for each unit. ERP unit information is summarized as follows:

|                                  | Total<br>Units | Company<br>Units | Limited Partner<br>Units |
|----------------------------------|----------------|------------------|--------------------------|
| Outstanding at December 31, 2003 | 5,565,066      | 3,432,065        | 2,133,001                |
| Issued                           | 487,949        |                  | 487,949(1)               |
| Redeemed                         |                | 1,381,609(2)     | (1,381,609)(2)           |
| Outstanding at March 31, 2004    | 6,053,015      | 4,813,674        | 1,239,341                |

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(1) Represents partnership units issued in connection with the acquisition of New Britain Village Square (Note 3).

(2) Represents the redemption of partnership units for shares of common stock of the Company.

**Note 10: Stockholders Equity**Earnings per Share (EPS)

In accordance with the disclosure requirements of SFAS No. 128 (Note 2), a reconciliation of the numerator and denominator of basic and diluted EPS is provided as follows (in thousands, except per share amounts):

|                                                                              | Three Months Ended<br>March 31, |           |
|------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                              | 2004                            | 2003      |
| <b>Basic EPS</b>                                                             |                                 |           |
| <b>Numerator:</b>                                                            |                                 |           |
| Income from continuing operations                                            | \$ 35,031                       | \$ 34,328 |
| Preferred dividends                                                          | (5,275)                         | (4,859)   |
| Net income available to common shares from continuing operations - basic     | 29,756                          | 29,469    |
| Net income available to common shares from discontinued operations - basic   | 2,366                           | 861       |
| Net income available to common shares - basic                                | \$ 32,122                       | \$ 30,330 |
| <b>Denominator:</b>                                                          |                                 |           |
| Weighted average of common shares outstanding                                | 99,419                          | 96,937    |
| Earning per share - continuing operations                                    | \$ 0.30                         | \$ 0.30   |
| Earnings per share - discontinued operations                                 | 0.02                            | 0.01      |
| Basic earnings per common share                                              | \$ 0.32                         | \$ 0.31   |
| <b>Diluted EPS</b>                                                           |                                 |           |
| <b>Numerator:</b>                                                            |                                 |           |
| Income from continuing operations                                            | \$ 35,031                       | \$ 34,328 |
| Preferred dividends                                                          | (5,275)                         | (4,859)   |
| Minority interest                                                            | 260                             | 401       |
| Net income available to common shares from continuing operations - diluted   | 30,016                          | 29,870    |
| Net income available to common shares from discontinued operations - diluted | 2,366                           | 861       |
| Net income available to common shares - diluted                              | \$ 32,382                       | \$ 30,731 |
| <b>Denominator:</b>                                                          |                                 |           |
| Weighted average of common shares outstanding - basic                        | 99,419                          | 96,937    |
| Effect of diluted securities:                                                |                                 |           |
| Common stock options                                                         | 1,226                           | 487       |
| Excel Realty Partners, L.P. third party units                                | 1,363                           | 2,178     |

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|                                                         |    |         |    |        |
|---------------------------------------------------------|----|---------|----|--------|
| Weighted average of common shares outstanding - diluted |    | 102,008 |    | 99,602 |
| Earning per share - continuing operations               | \$ | 0.30    | \$ | 0.30   |
| Earnings per share - discontinued operations            |    | 0.02    |    | 0.01   |
| Diluted earnings per common share                       | \$ | 0.32    | \$ | 0.31   |

Note - For the three months ended March 31, 2004 and 2003 there were approximately 0.6 million and 3.3 million stock options, respectively, that were anti-dilutive. Additionally, debt issued in the Convertible Debt Offering is not included in the diluted calculation, as conversion triggers have not yet occurred.

Common Stock

On July 21, 2003, the Company established a standby equity distribution program with BNY Capital Markets, Inc. pursuant to which the Company may issue and sell from time to time up to \$50 million of common stock in at the market transactions. As of March 31, 2004, the Company had not issued or sold any common stock under this distribution program.

Preferred Stock

On April 21, 2003, the Company completed a public offering of 8,000,000 depositary shares, each representing a 1/10 fractional interest of a share of 7.625% Series E Cumulative Redeemable Preferred Stock (the Preferred Stock Offering ). The net proceeds to the Company from the Preferred Stock Offering were approximately \$193 million and were used to redeem all of the Company's outstanding Series B depositary shares (the Series B Preferred Stock Redemption ), each of which represented a 1/10 fractional interest of a share of 8 5/8% Series B Cumulative Redeemable Preferred Stock, as well as to repay a portion of the amount outstanding under the Fleet Revolving Facility.

On May 5, 2003, the Company completed the Series B Preferred Stock Redemption at an aggregate cost of \$158 million. The redemption occurred at a premium to the carrying value of the preferred stock, aggregating approximately \$0.6 million based on shares redeemed by the Company at the closing price at redemption.

The Company also has 1,500,000 Series D depositary shares outstanding, each representing a 1/10 fractional interest in a share of 7.8% Series D Cumulative Voting Step-Up Premium Rate Preferred Stock (the Preferred D Shares ), which are redeemable at the option of the Company on or after June 15, 2007 at a liquidation preference of \$500 per share. The Preferred D Shares pay dividends quarterly at the rate of 7.8% of the liquidation preference per annum through September 2012 and at the rate of 9.8% of the liquidation preference per annum thereafter.

**Note 11: Commitments and Contingencies**

General

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties. The Company is involved in routine litigation arising in the ordinary course of business, none of which is believed to be material. The Company has, however, reserved approximately \$2.3 million as of March 31, 2004 in connection with a particular tenant litigation. There can be no assurance as to the final outcome of this litigation and whether it will exceed or fall short of the amount reserved; however, even if the Company's ultimate loss is more than the reserve established, the Company does not expect that the amount of the loss in excess of the reserve would be material.

Funding Commitments

In addition to the joint venture funding commitments described in Note 6 above, the Company also had the following contractual obligations as of March 31, 2004, none of which the Company believes will have a material adverse affect on the Company's operations:

*Letters of Credit.* The Company has arranged for the provision of six separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, the Company will be obligated to reimburse the

providing bank for the amount of the draw. As of March 31, 2004, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately \$2.7 million.

*Non-Recourse Debt Guarantees.* Under certain Company and joint venture non-recourse mortgage loans, the Company could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of March 31, 2004, the Company had mortgage loans outstanding of approximately \$578.6 million, and joint ventures in which

the Company has a direct or indirect interest had mortgage loans outstanding of approximately \$250.4 million.

*Leasing Commitments.* The Company has entered into leases, as lessee, in connection with ground leases for shopping centers which it operates, an office building which it sublets, and administrative space for the Company. These leases are accounted for as operating leases. The minimum annual rental commitments for these leases during the next five fiscal years and thereafter are approximately as follows (in thousands):

| Year                         |    |        |
|------------------------------|----|--------|
| 2004 (remaining nine months) | \$ | 1,296  |
| 2005                         |    | 1,324  |
| 2006                         |    | 833    |
| 2007                         |    | 543    |
| 2008                         |    | 398    |
| Thereafter                   |    | 12,644 |

#### Environmental Matters

Under various federal, state and local laws, ordinances and regulations, the Company may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may become liable for the costs of removal or remediation of certain hazardous substances released on or in their property or disposed of by them, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). Such liability may be imposed whether or not the Company knew of, or was responsible for, the presence of these hazardous or toxic substances. As is common with community and neighborhood shopping centers, many of the Company's properties had or have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties.

The Company is aware that soil and groundwater contamination exists at some of its properties. The primary contaminants of concern at these properties include perchloroethylene and trichloroethylene (associated with the operations of on-site dry cleaners) and petroleum hydrocarbons (associated with the operations of on-site gasoline facilities). The Company is also aware that asbestos-containing materials exist at some of its properties. While the Company does not expect the environmental conditions at its properties, considered as a whole, to have a material adverse effect on the Company, there can be no assurance that this will be the case. Further, no assurance can be given that any environmental studies performed have identified or will identify all material environmental conditions, that any prior owner of the properties did not create a material environmental condition not known to the Company or that a material environmental condition does not otherwise exist with respect to any of the Company's properties.

**Note 12: Comprehensive Income**

Total comprehensive income was \$35.1 million and \$35.5 million for the three months ended March 31, 2004 and 2003, respectively. The primary components of comprehensive income, other than net income, are the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and the Company's mark-to-market on its available-for-sale securities.

As of March 31, 2004 and December 31, 2003, accumulated other comprehensive income reflected in the Company's stockholders' equity on the consolidated balance sheets was comprised of the following (in thousands):

|                                                   | As of<br>March 31,<br>2004 | As of<br>December 31,<br>2003 |
|---------------------------------------------------|----------------------------|-------------------------------|
| Unrealized gains on available-for-sale securities | \$ 2,065                   | \$ 1,942                      |
| Realized gains on interest risk hedges            | 2,139                      | 2,195                         |
| Realized losses on interest risk hedges           | (1,256)                    | (1,352)                       |
| Unrealized losses on interest risk hedges         | (2,499)                    |                               |
| Accumulated other comprehensive income            | \$ 449                     | \$ 2,785                      |

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying notes thereto. Historical results and percentage relationships set forth in the Consolidated Statements of Income and Comprehensive Income contained in the Consolidated Financial Statements and accompanying notes, including trends which might appear, should not be taken as indicative of future operations.

On January 3, 2003, we completed the Spartan Acquisition. Accordingly, our results of operations for the three months ended March 31, 2004 and 2003 include the results of operations of the properties acquired in the Spartan Acquisition from and after January 3, 2003.

During the three months ended March 31, 2004, we acquired four properties, New Britain Village Square, Elk Grove Town Center, Villa Monaco and Florence Square, as well as the remaining 50% interest in Clearwater Mall that we did not previously own (collectively, 2004 Acquisitions ). During the second and third quarters of 2003, we also acquired three properties, Panama City Square, Harpers Station and Dickson City Crossings (collectively, 2003 Other Acquisitions ). Accordingly, our results of operations for the three months ended March 31, 2004 include the results of operations of the 2004 Acquisitions and the 2003 Other Acquisitions.

**Results of operations for the three months ended March 31, 2004 and 2003**

***Rental Revenues:***

Total rental revenues increased \$5.3 million, or 4%, from \$118.6 million for the three months ended March 31, 2003 to \$123.9 million for the three months ended March 31, 2004. The major areas of change are discussed below.

Rental income increased \$4.0 million, or 4%, from \$91.5 million for the three months ended March 31, 2003 to \$95.5 million for the three months ended March 31, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased rental income by approximately \$1.9 million

2003 Other Acquisitions, which increased rental income by approximately \$1.8 million

Increased lease settlement income, which increased rental income by approximately \$1.4 million

Combined decreases in specialty rents and cost of living, which decreased rental income by approximately \$0.2 million

Decreases in rental rates and occupancy, combined with decreases in rental revenues attributable to properties under redevelopment and certain circumstances in which specific tenants are paying percentage rent in lieu of fixed rent, which accounted for the balance of the variance

Percentage rents increased \$1.0 million, or 63%, from \$1.6 million for the three months ended March 31, 2003 to \$2.6 million for the three months ended March 31, 2004. This variance is attributable to a general increase in tenants sales as well as certain circumstances in which specific tenants are paying percentage rent in lieu of fixed rent.

***Expenses:***

Total expenses increased \$4.2 million, or 7%, from \$62.0 million for the three months ended March 31, 2003 to \$66.2 million for the three months ended March 31, 2004. The major areas of change are discussed below.



Operating costs increased \$1.3 million, or 6%, from \$22.3 million for the three months ended March 31, 2003 to \$23.6 million for the three months ended March 31, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased operating costs by approximately \$0.4 million

2003 Other Acquisitions, which increased operating costs by approximately \$0.3 million

Increased insurance expense of approximately \$0.7 million attributable to higher premiums under our renewed policy and our addition of a higher coverage terrorism clause

Combined increases in repairs, maintenance, utilities, cleaning, office rent and other expenses, which increased operating costs by approximately \$1.4 million

Decreased snow removal costs of approximately \$0.7 million, attributable to unusually harsh winter conditions in the first quarter of 2003

Decreased payroll related expenses, which decreased operating costs by approximately \$0.2 million

Decreased professional fees, which decreased operating costs by approximately \$0.6 million

Real estate and other taxes decreased \$0.5 million, or 3%, from \$15.4 million for the three months ended March 31, 2003 to \$14.9 million for the three months ended March 31, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased real estate and other taxes by approximately \$0.2 million

2003 Other Acquisitions, which increased real estate and other taxes by approximately \$0.2 million

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Property tax rate decreases at certain municipalities, combined with lower assessments at certain properties, which accounted for the balance of the variance

Depreciation and amortization expense increased \$2.5 million, or 14%, from \$18.5 million for the three months ended March 31, 2003 to \$21.0 million for the three months ended March 31, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased depreciation and amortization by approximately \$0.6 million

2003 Other Acquisitions, which increased depreciation and amortization by approximately \$0.5 million

Increased depreciation and amortization expense on properties previously under redevelopment, which accounted for the balance of the variance

General and administrative expenses increased \$0.8 million, or 19%, from \$4.2 million for the three months ended March 31, 2003 to \$5.0 million for the three months ended March 31, 2004. The following factors accounted for this variance:

Increased payroll related expenses, which increased general and administrative expenses by approximately \$1.3 million

Combined increases in utilities, professional fees, and taxes, which increased general and administrative expenses by approximately \$0.5 million

Increased allocation of costs to operating expenses, which decreased general and administrative expenses by approximately \$1.0 million

*Other Income and Expenses:*

Interest, dividend and other income decreased \$0.9 million, or 26%, from \$3.4 million for the three months ended March 31, 2003 to \$2.5 million for the three months ended March 31, 2004. The following factors accounted for this variance:

Increased management fee revenue, which increased interest, dividend and other income by approximately \$0.2 million

Tax refund received for certain property, which increased interest, dividend and other income by approximately \$0.4 million

The payoff of certain notes receivable, which decreased interest, dividend and other income by approximately \$0.4 million

Lower rates of return on certain investments, which decreased interest, dividend and other income by approximately \$0.2 million

The payoff of a letter of credit on which we were earning fee income, which decreased interest, dividend and other income by approximately \$0.7 million

The payoff of certain employee loans receivable, which accounted for the balance of the variance

Interest expense increased \$0.6 million, or 2%, from \$25.8 million for the three months ended March 31, 2003 to \$26.4 million for the three months ended March 31, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased interest expense by approximately \$0.1 million

2003 Other Acquisitions, which increased interest expense by approximately \$0.8 million

The Convertible Debt Offering and the 2004 Debt Offering, which increased interest expense by approximately \$2.2 million

Financing fees incurred in connection with the Convertible Debt Offering and the 2004 Debt Offering, which increased interest expense by approximately \$0.1 million

The refinancing of our \$155 million senior unsecured term loan facility with the Fleet Secured Term Loan, compounded by a lower interest rate on, and a lower balance outstanding under, the Fleet Revolving Facility, which decreased interest expense by approximately \$1.2 million

Lower interest rates on our medium-term notes, which decreased interest expense by approximately \$0.1 million

A reduction of our mortgage debt, which decreased interest expense by approximately \$0.7 million

Reduced amortization of debt issuance costs, which decreased interest expense by approximately \$0.3 million

Increased capitalization with respect to our redevelopment projects, which decreased interest expense by \$0.3 million

Minority interest in income of consolidated partnership decreased \$0.1 million, or 25%, from \$0.4 million for the three months ended March 31, 2003 to \$0.3 million for the three months ended March 31, 2004. This decrease is primarily attributable to the redemption of units by several partners, in exchange for shares of our common stock.

***Discontinued Operations:***

Effective January 1, 2002, we adopted SFAS No. 144. This statement retains the requirement of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and*

*Transactions*, to report discontinued operations separately from continuing operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. As of March 31, 2004, such properties generated approximately \$1.0 million and \$1.4 million in results of operations and gain on sale, respectively. As of March 31, 2003, such properties generated approximately \$0.8 million, \$3.5 million and \$3.5 million in results of operations, impairment loss and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

### **Funds from Operations**

Funds from Operations ( FFO ) is a widely used performance measure for real estate companies and is provided here as a supplemental measure of operating performance. We calculate FFO in accordance with the best practices described in the April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts (the White Paper ). The White Paper defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

On October 1, 2003, NAREIT, based on discussions with the SEC, provided revised guidance regarding the calculation of FFO. This revised guidance provides that impairments should not be added back to net income in calculating FFO and that original issuance costs associated with preferred stock that has been redeemed should be factored into the calculation of FFO. We historically have added back impairments in calculating FFO, in accordance with prior NAREIT guidance, and have not factored in original issuance costs of preferred stock that has been redeemed in the calculation of FFO. We have revised our calculation of FFO in accordance with NAREIT's revised guidance in the table set forth below. Prior period amounts reflect the revised guidance.

Given the nature of our business as a real estate owner and operator, we believe that FFO is helpful to investors as a starting point in measuring our operational performance because it excludes various items included in net income that do not relate to or are not indicative of our operating performance such as gains (or losses) from sales of property and depreciation and amortization, which can make periodic and peer analyses of operating performance more difficult. However, it should be noted that there are certain items, such as impairments, that are included within the definition of FFO that do not relate to and are not indicative of our operating performance. Furthermore, FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance, is not an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, and is not indicative of funds available to fund our cash needs, including our ability to make distributions. Our computation of FFO may differ from the methodology utilized by other equity REITs to calculate FFO and, therefore, may not be comparable to such other REITs.

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The following information is provided to reconcile net income, the most comparable GAAP number, to FFO, and to show the items included in our FFO for the past periods indicated (in thousands):

|                                                                 | Three Months Ended<br>March 31, |                     |
|-----------------------------------------------------------------|---------------------------------|---------------------|
|                                                                 | 2004                            | 2003                |
| Net income available to common stockholders diluted             | \$ 32,382                       | \$ 30,731           |
| Deduct:                                                         |                                 |                     |
| Minority interest in income of consolidated partnership         | (260)                           | (401)               |
| Net income available to common stockholders basic               | 32,122                          | 30,330              |
| Add:                                                            |                                 |                     |
| Depreciation and amortization                                   |                                 |                     |
| Continuing operations real estate assets                        | 21,010                          | 18,540              |
| Discontinued operations real estate assets                      | 254                             | 578                 |
| Pro rata share of joint venture real estate assets              | 373                             | 254                 |
| Deduct:                                                         |                                 |                     |
| Gain on the sale of real estate (1)                             | (1,217)                         |                     |
| Gain on the sale of discontinued operations (1)                 | (946)                           | (1,000)             |
| Pro rata share of joint venture loss on sale of real estate (1) | 425                             |                     |
| <b>Funds from operations basic</b>                              | <b>52,021</b>                   | <b>48,702 (2)</b>   |
| Add:                                                            |                                 |                     |
| Minority interest in income of consolidated partnership         | 260                             | 401                 |
| <b>Funds from operations diluted</b>                            | <b>\$ 52,281</b>                | <b>\$ 49,103(2)</b> |
| Net cash provided by operating activities                       | \$ 50,887                       | \$ 53,306           |
| Net cash used in investing activities                           | (78,180)                        | (39,459)            |
| Net cash provided by (used in) financing activities             | 33,977                          | (12,629)            |

(1) Excludes gain/loss on sale of land.

(2) As noted above, the calculation of FFO has been revised in accordance with revised NAREIT guidance. As a result, the revised calculation of FFO for the three months ended March 31, 2003 now reflects changes from previously disclosed FFO for such period, including a decrease in FFO of approximately \$3.5 million relating to impairments (which amount previously was added back in the calculation of FFO, thereby increasing previously disclosed FFO by such amount from that stated above) for the three months ended March 31, 2003.

### Liquidity and Capital Resources

As of March 31, 2004, we had approximately \$32.0 million in available cash, cash equivalents, restricted cash and marketable securities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. Therefore, as a general matter, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

*Short-Term Liquidity Needs*

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating and other expenses directly associated with our portfolio of properties (including regular maintenance items), interest expense and scheduled principal payments on our outstanding debt, capital expenditures incurred to facilitate the leasing of space (*e.g.*, tenant improvements and leasing commissions), and quarterly dividends and distributions that we pay to our common and preferred stockholders and holders of partnership units in a partnership that we control. We believe that cash generated from operations, issuances under our standby equity distribution program, and borrowings under the Fleet Revolving Facility will be sufficient to meet our short-term liquidity requirements; however, there are certain factors that may have a material adverse effect on our cash flow.

We derive substantially all of our revenue from tenants under existing leases at our properties. Therefore, our operating cash flow is dependent on the rents that we are able to charge to our tenants, and the ability of these

tenants to make their rental payments. We believe that the nature of the properties in which we typically invest primarily community and neighborhood shopping centers provides a more stable revenue flow in uncertain economic times, because consumers still need to purchase basic living essentials such as food and soft goods, even in difficult economic times. However, general economic downturns, or economic downturns in one or more markets in which we own properties, still may adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms as leases expire. In either of these instances, our cash flow would be adversely affected. We are not currently aware of any pending tenant bankruptcies that are likely to materially affect our aggregate rental revenues.

We may acquire large portfolios of community and neighborhood shopping centers, either through direct acquisitions or business combinations. While we believe that the cash generated by any newly-acquired properties will more than offset the operating and interest expenses associated with those properties, it is possible that the properties may not perform as well as expected and as a result, our cash needs may increase. In addition, there may be other costs incurred as a result of the acquisition of properties, including increased general and administrative costs while we assimilate the properties into our operating system.

In some cases, we have invested as a borrower, co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. Pursuant to the terms of two of our joint venture agreements, we have agreed to contribute up to an aggregate of \$20.8 million of additional capital that may be required by such joint ventures. We expect to fund the additional capital required by these joint ventures either out of excess cash from operations, or through draws on the Fleet Revolving Facility.

Our current redevelopment pipeline is comprised of 34 redevelopment projects (excluding joint venture redevelopments), the aggregate cost of which (including costs incurred in prior years on these projects) is expected to be approximately \$130.2 million, which we intend on financing primarily through draws on the Fleet Revolving Facility.

We regularly incur significant expenditures in connection with the re-leasing of our retail space, principally in the form of tenant improvements and leasing commissions. The amounts of these expenditures can vary significantly, depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the life of the leases. We expect to pay for these capital expenditures out of excess cash from operations or, to the extent necessary, through draws on the Fleet Revolving Facility. We believe that a significant portion of these expenditures is recouped in the form of continuing lease payments.

We have established a stock repurchase program under which we may repurchase up to \$75 million of our outstanding common stock through periodic open market transactions or through privately negotiated transactions. We have not repurchased any shares of common stock in 2004, nor did we repurchase any shares of common stock in 2003. In light of the current trading price of our common stock, we do not anticipate effecting additional stock repurchases in the near future, although we could reevaluate this determination at any time based on market conditions.

We have also established a repurchase program under which we may repurchase up to \$125 million of our outstanding preferred stock and public debt through periodic open market transactions or through privately negotiated transactions. As of March 31, 2004, no purchases had been made under this program.

The current quarterly dividend on our common stock is \$0.4125 per share. We also pay regular quarterly dividends on our preferred stock. The maintenance of these dividends is subject to various factors, including the discretion of our Board of Directors, our ability to pay dividends

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under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income be distributed to stockholders. We also make regular quarterly distributions on units in a partnership that we control.

In addition, under the Fleet Revolving Facility and the Fleet Secured Term Loan, we are restricted from paying common stock dividends that would exceed 95% of our Funds From Operations (as defined in the applicable

debt agreement) during any four-quarter period.

#### *Long-Term Liquidity Needs*

Our long-term liquidity requirements consist primarily of funds necessary to pay for the principal amount of our long-term debt as it matures, significant non-recurring capital expenditures that need to be made periodically at our properties, redevelopment projects that we undertake at our properties and the costs associated with acquisitions of properties that we pursue. Historically, we have satisfied these requirements principally through the most advantageous source of capital at the time, which has included the incurrence of new debt through borrowings (through public offerings of unsecured debt and private incurrence of secured and unsecured debt), sales of common and preferred stock, capital raised through the disposition of assets, repayment by third parties of notes receivable and joint venture capital transactions. We believe that these sources of capital will continue to be available in the future to fund our long-term capital needs; however, there are certain factors that may have a material adverse effect on our ability to access these capital sources.

Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets, our credit rating and borrowing restrictions imposed by existing lenders. Currently, we have investment grade credit ratings for prospective unsecured debt offerings from two major rating agencies – Standard & Poor's (BBB) and Moody's Investor Service (Baa2). A downgrade in outlook or rating by a rating agency can occur at any time if the agency perceives an adverse change in our financial condition, results of operations or ability to service debt. If such a downgrade occurs, it would increase the interest rate currently payable under our existing credit facilities, it likely would increase the costs associated with obtaining future financing, and it potentially could adversely affect our ability to obtain future financing.

Based on an internal evaluation, the estimated value of our properties is above the outstanding amount of mortgage debt encumbering the properties. Therefore, at this time, we believe that additional financing could be obtained, either in the form of mortgage debt or additional unsecured borrowings, and without violating the financial covenants contained in our existing debt agreements. In the first quarter of 2004, we issued \$150 million of unsecured notes in the 2004 Debt Offering. In 2003, we entered into the Fleet Secured Term Loan and issued an aggregate of \$165 million of unsecured notes in the Convertible Debt Offering and the Medium-Term Notes Offering.

Our ability to raise funds through sales of common stock and preferred stock is dependent on, among other things, general market conditions for REITs, market perceptions about our company and the current trading price of our stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the equity markets may not be consistently available on attractive terms.

We have selectively effected asset sales to generate cash proceeds over the last two years. In particular, in December 2002 we sold four of our factory outlet centers and generated gross proceeds of approximately \$193 million. During the first quarter of 2004 and during the 2003 fiscal year, we sold other assets and generated proceeds from certain of our joint venture projects and notes receivable that raised an additional \$13.2 million and \$121.7 million in gross proceeds, respectively. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. Our ability to sell properties in the future to raise cash will necessarily be limited if market conditions make such sales unattractive.

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The following table summarizes all of our known contractual cash obligations, excluding interest, to pay third parties as of March 31, 2004 (based on a calendar year, dollars in thousands):

| Contractual Cash Obligations | Total        | Less than 1 year | 1- 3 years | 3 - 5 years | More than 5 years |
|------------------------------|--------------|------------------|------------|-------------|-------------------|
| Long-Term Debt (1)           | \$ 1,833,632 | \$ 107,216       | \$ 438,022 | \$ 507,189  | \$ 781,205        |
| Capital Lease Obligations    | 28,482       | 248              | 601        | 791         | 26,842            |
| Operating Leases             | 17,038       | 1,296            | 2,157      | 941         | 12,644            |
| Total                        | \$ 1,879,152 | \$ 108,760       | \$ 440,780 | \$ 508,921  | \$ 820,691        |

(1) Long-term debt includes scheduled amortization and scheduled maturities for mortgage loans, notes payable and credit facilities.

On February 6, 2004, we completed the 2004 Debt Offering. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under the Fleet Revolving Facility. We intend to repay \$75 million issued under our medium-term notes program that matures in October 2004 and two mortgages that mature in the second half of 2004, either through draws under the Fleet Revolving Facility or from the proceeds generated through the issuance of public or private secured or unsecured debt, or a combination thereof. We anticipate repaying the balance of the 2004 long-term debt obligations, which consists of scheduled amortization, through draws under the Fleet Revolving Facility.

The following table summarizes certain terms of our senior unsecured credit facilities as of March 31, 2004:

| Loan                     | Amount Available to be Drawn (in thousands) | Amount Drawn as of March 31, 2004 (in thousands) | Current Interest Rate (1) | Maturity Date  |
|--------------------------|---------------------------------------------|--------------------------------------------------|---------------------------|----------------|
| Fleet Revolving Facility | \$ 350,000                                  | \$ 121,000                                       | LIBOR plus 105 bp         | April 2005     |
| Fleet Secured Term Loan  | 100,000(2)                                  | 100,000                                          | LIBOR plus 125 bp         | September 2006 |
| Total                    | \$ 450,000                                  | \$ 221,000                                       |                           |                |

(1) We incur interest using a 30-day LIBOR rate, which was 1.09% at March 31, 2004.

(2) Under certain circumstances, the maximum amount available under this facility may be increased to \$150 million. We intend to increase the amount of the facility to the maximum \$150 million, pursuant to and in accordance with the terms of the agreement, during the second quarter of 2004.

The Fleet Revolving Facility and the Fleet Secured Term Loan require that we maintain certain financial coverage ratios. These coverage ratios currently include:

net operating income of unencumbered assets to interest on unsecured debt ratio of at least 2:1

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately \$1.3 billion

total debt to total adjusted assets of no more than 57.5%

total secured debt to total adjusted assets of no more than 40%

unsecured debt to unencumbered assets value ratio of no more than 55%

book value of ancillary assets to total adjusted assets of no more than 25%

book value of new construction assets to total adjusted assets of no more than 15%

Funds from Operations (as defined in the applicable debt agreement) payout ratio no greater than 95%

Under the terms of each of the Fleet Revolving Facility and the Fleet Secured Term Loan, the respective covenants will be modified to be consistent with any more restrictive covenant contained in any other existing or new senior unsecured credit facility that we enter into. The Fleet Secured Term Loan also contains certain financial

covenants relating to the operating performance of certain properties that collateralize the Fleet Secured Term Loan.

We have also issued approximately \$1.1 billion of indebtedness under five public indentures. These indentures also contain covenants that require us to maintain certain financial coverage ratios. These covenants are generally less onerous than the covenants contained in our existing credit facilities, as described above.

As of March 31, 2004, we were in compliance with all of the financial covenants under our existing credit facilities and public indentures, and we believe that we will continue to remain in compliance with these covenants. However, if our properties do not perform as expected, or if unexpected events occur that require us to borrow additional funds, compliance with these covenants may become difficult and may restrict our ability to pursue certain business initiatives. In addition, these financial covenants may restrict our ability to pursue particular acquisition transactions (for example, acquiring a portfolio of properties that is highly leveraged) and could significantly impact our ability to pursue growth initiatives.

In addition to our existing credit facilities and public indebtedness, we had approximately \$578.6 million of mortgage debt outstanding as of March 31, 2004, having a weighted average interest rate of 7.5% per annum, and \$1.1 billion of notes payable with a weighted average interest rate of 6.1% per annum.

#### **Off-Balance Sheet Arrangements**

We do not believe that we currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

However, in a few cases, we have made commitments to provide funds to joint ventures under certain circumstances. The liabilities associated with these joint ventures do not show up as liabilities on our consolidated financial statements.

The following is a brief summary of the joint venture obligations to which we are a party as of March 31, 2004, and in which we expect to make additional capital contributions to the joint venture:

*NP/I&G Institutional Retail Company, LLC.* In November 2003, we formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned two retail properties as of March 31, 2004. Under the terms of this joint venture, we have a 20% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$30.0 million, of which we have contributed approximately \$12.1 million as of March 31, 2004. We anticipate contributing the remaining \$17.9 million during 2004 and 2005. The joint venture had loans outstanding of approximately \$27.0 million as of

March 31, 2004. As of March 31, 2004, the book value of our investment in NP/I&G Institutional Retail Company, LLC was approximately \$12.5 million.

*CA New Plan Venture Fund.* We, together with a third-party institution investor, have an investment in a joint venture which owned 14 operating retail properties and one retail property under redevelopment as of March 31, 2004. Under the terms of this joint venture, we have a 10% interest in the venture, and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$8.3 million, of which approximately \$5.4 million had been contributed by us as of March 31, 2004. We anticipate contributing the remaining \$2.9 million during the remainder of 2004. The joint venture had loans outstanding of approximately \$99.1 million as of March 31, 2004. As of March 31, 2004, the book value of our investment in CA New Plan Venture Fund was approximately \$6.2 million.

In addition, the following is a brief summary of the other joint venture obligations that we have as of March 31, 2004. Although we have agreed to contribute certain amounts of capital that may be required by these joint ventures, as more fully described below, we do not expect that any significant capital contributions to the following joint ventures will be required.

*Arapahoe Crossings, LP.* On September 30, 2003, a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in Arapahoe Crossings, reducing our ownership interest from 100% to 30%. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately \$49.9 million as of March 31, 2004. As of March 31, 2004, the book value of our investment in Arapahoe Crossings, LP was approximately \$6.7 million.

*Benbrooke Ventures.* We have an investment in a joint venture which owns a community shopping center located in Dover, Delaware. Under the terms of this joint venture, we have a 50% interest in the venture; however, we have agreed to contribute 80% of any capital required by the joint venture. As of March 31, 2004, the book value of our investment in Benbrooke Ventures was approximately \$4.1 million.

*Preston Ridge.* We have investments in various joint ventures that own two community shopping centers (The Centre at Preston Ridge and The Market at Preston Ridge) and undeveloped land in Frisco, Texas. As of March 31, 2004, the book value of our investment in Preston Ridge was approximately \$9.1 million.

*The Centre at Preston Ridge.* Under the terms of this joint venture, we have a 25% interest in a venture that owns The Centre at Preston Ridge. We have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately \$69.8 million as of March 31, 2004.

*The Market at Preston Ridge.* We have a 50% interest in a joint venture that owns The Market at Preston Ridge. We have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately \$4.6 million as of March 31, 2004.

*Undeveloped Land Parcel.* We have a 50% interest in a joint venture that owns approximately 38.6 acres of undeveloped land in Frisco, Texas. We have agreed to contribute our pro rata share of any capital that might be required by the joint venture. As of March 31, 2004, the joint venture had a mortgage loan outstanding of approximately \$2.9 million, payable to us. This loan is reflected as part of our investment in the joint venture.

#### *Other Funding Obligations*

In addition to the joint venture obligations described above, we also had the following contingent contractual obligations as of March 31, 2004, none of which we believe will materially adversely affect us:

*Letters of Credit.* We have arranged for the provision of six separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, we will be obligated to reimburse the providing bank for the amount of the draw. As of March 31, 2004, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately \$2.7 million.

*Non-Recourse Debt Guarantees.* Under certain of our non-recourse loans and those of our joint ventures, we could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of March 31, 2004, we had mortgage loans outstanding of approximately \$578.6 million and our joint ventures had mortgage loans outstanding of approximately \$250.4 million.

*Leasing Commitments.* We have entered into leases, as lessee, in connection with ground leases for shopping centers which we operate, an office building which we sublet, and our administrative office space. These leases are accounted for as operating leases. The minimum annual rental commitments for these leases during the next five fiscal years and thereafter are approximately as follows (in thousands):

| <b>Year</b>                  |          |
|------------------------------|----------|
| 2004 (remaining nine months) | \$ 1,296 |
| 2005                         | 1,324    |
| 2006                         | 833      |
| 2007                         | 543      |
| 2008                         | 398      |
| Thereafter                   | 12,644   |

For a discussion of other factors which may adversely affect our liquidity and capital resources, please see the section titled "Risk Factors" in Item I of our Annual Report on Form 10-K for the year ended December 31, 2003.

#### **Inflation**

The majority of our leases contain provisions designed to mitigate the adverse impact of inflation. Such provisions contain clauses enabling us to receive percentage rents which generally increase as prices rise but may be adversely impacted by tenant sales decreases, and/or escalation clauses which are typically related to increases in the consumer price index or similar inflation indices. In addition, we believe that many of our existing lease rates are below current market levels for comparable space and that upon renewal or re-rental such rates may be increased to or get closer to current market rates. This belief is based upon an analysis of relevant market conditions, including a comparison of comparable market rental rates, and upon the fact that many of such leases have been in place for a number of years and may not contain escalation clauses sufficient to match the increase in market rental rates over such time. Most of our leases require the tenant to pay its share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, we periodically evaluate our exposure to interest rate fluctuations, and may enter into interest rate protection agreements which mitigate, but do not eliminate, the effect of changes in interest rates on our floating rate loans.

In the normal course of business, we also face risks that are either non-financial or non-qualitative. Such risks principally include credit risks and legal risks.

**Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

As of March 31, 2004, we had approximately \$25.1 million of outstanding floating rate mortgages. We also had approximately \$221.0 million outstanding under floating rate credit facilities. We do not believe that the interest rate risk represented by our floating rate debt is material as of March 31, 2004, in relation to our \$1.9 billion of outstanding total debt, our \$3.7 billion of total assets and the \$4.9 billion total market capitalization as of that date. In addition, as discussed below, we have converted \$150.0 million of fixed rate borrowings to floating rate borrowings through the use of hedging agreements.

As of March 31, 2004, we had entered into eight hedging agreements: four reverse arrears swap agreements and four forward starting swaps. We had an existing reverse arrears swap agreement, which was entered into during 2002, with a notional amount of \$50 million, under which we receive the difference between the fixed rate of the swap, 4.357%, and the floating rate option, which is the 6-month LIBOR rate, in arrears. On January 30, 2004, concurrent with the pricing of the 2004 Debt Offering, we entered into three additional reverse arrears swap agreements that effectively converted the interest rate on \$100 million of the debt from a fixed rate to a blended floating rate of 39 basis points over the 6-month LIBOR rate. These swaps will terminate on February 1, 2011. Additionally during the three months ended March 31, 2004, in order to mitigate the potential risk of adverse changes in the LIBOR swap rate, we entered into four 10-year forward starting interest rate swap agreements for an aggregate of approximately \$100 million in notional amount. These derivative instruments are expected to be used to hedge the risk of changes in interest cash outflows on anticipated fixed rate financings by effectively locking the 3-month LIBOR swap rate. The gain or loss on the swaps will be deferred in accumulated other comprehensive income and will be amortized into earnings as an increase/decrease in effective interest expense during the same period or periods in which the hedged transaction affects earnings.

Hedging agreements may expose us to the risk that the counterparties to these agreements may not perform, which could increase our exposure to fluctuating interest rates. Generally, the counterparties to hedging agreements that we enter into are major financial institutions. We may borrow additional money with floating interest rates in the future. Increases in interest rates, or the loss of the benefit of existing or future hedging agreements, would increase our expense, which would adversely affect cash flow and our ability to service our debt. Future increases in interest rates will increase our interest expense as compared to the fixed rate debt underlying our hedging agreements and we could be required to make payments to unwind such agreements.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$4.0 million. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately \$4.0 million. This assumes that the amount outstanding under our variable rate debt remains at approximately \$396.1 million (including the \$150 million in various reverse arrears swap agreements), the balance as of March 31, 2004. If market rates of interest increase by 1%, the fair value of our total outstanding debt would decrease by approximately \$18.8 million. If market rates of interest decreased by 1%, the fair value of our total outstanding debt would increase by approximately \$18.8 million. This assumes that our total outstanding debt remains at \$1.9 billion, the balance as of March 31, 2004.

As of March 31, 2004, we had no material exposure to market risk (including foreign currency exchange risk, commodity price risk or equity price risk).

**Item 4. CONTROLS AND PROCEDURES**

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An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and

procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective. There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

12.1 Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) During the period covered by this report the Company filed the following reports on Form 8-K:

Form 8-K filed on February 5, 2004, containing Item 5, Other Events disclosure regarding the sale by the Company of \$150 million aggregate principal amount of its 4.50% Senior Notes due 2011.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 7, 2004

NEW PLAN EXCEL REALTY TRUST, INC.

By:            /s/ Glenn J. Rufrano  
                  Glenn J. Rufrano  
                  Chief Executive Officer

By:            /s/ John B. Roche  
                  John B. Roche  
                  Chief Financial Officer