FEDERAL REALTY INVESTMENT TRUST
Form 10-Q
May 04, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to

Commission file number: 1-07533

FEDERAL REALTY INVESTMENT TRUST

(Exact Name of Registrant as Specified in its Declaration of Trust)

Maryland	**52-0782497**
(State of Organization)	**(IRS Employer Identification No.)**

1626 East Jefferson Street, Rockville, Maryland	**20852**
(Address of Principal Executive Offices)	**(Zip Code)**

(301) 998-8100

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of Registrant s common shares outstanding on April 30, 2010 was 61,352,779.

Table of Contents

FEDERAL REALTY INVESTMENT TRUST

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED MARCH 31, 2010

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION		3
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of March 31, 2010 (unaudited) and December 31, 2009	4
	Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2010 and 2009	5
	Consolidated Statement of Shareholders Equity (unaudited) for the three months ended March 31, 2010	6
	Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009	7
	Notes to Consolidated Financial Statements (unaudited)	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	22
Item 4.	Controls and Procedures	23
PART II. OTHER INFORMATION		23
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3.	Defaults Upon Senior Securities	25
Item 4.	[Removed and Reserved]	25
Item 5.	Other Information	25
Item 6.	Exhibits	25
SIGNATURES		26

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following balance sheet as of December 31, 2009, which has been derived from audited financial statements, and unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the company s latest Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation for the periods presented have been included. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year.

Table of Contents

Federal Realty Investment Trust

Consolidated Balance Sheets

	March 31, 2010	December 31, 2009
	(In thousands, except share data)	
	(Unaudited)	
ASSETS		
Real estate, at cost		
Operating (including $86,554 and $68,643 of consolidated variable interest entities, respectively)	$ 3,650,711	$ 3,626,476
Construction-in-progress	138,170	132,758
	3,788,881	3,759,234
Less accumulated depreciation and amortization (including $3,289 and $3,053 of consolidated variable interest entities, respectively)	(963,173)	(938,087)
Net real estate	2,825,708	2,821,147
Cash and cash equivalents	22,594	135,389
Accounts and notes receivable, net	70,953	72,191
Mortgage notes receivable, net	41,762	48,336
Investment in real estate partnership	35,453	35,633
Prepaid expenses and other assets	91,445	99,265
Debt issuance costs, net of accumulated amortization of $7,484 and $8,291, respectively	8,429	10,348
TOTAL ASSETS	$ 3,096,344	$ 3,222,309
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Mortgages payable (including $23,262 and $23,417 of consolidated variable interest entities, respectively)	$ 537,129	$ 539,609
Capital lease obligations	61,958	62,275
Notes payable	11,694	261,745
Senior notes and debentures	1,079,906	930,219
Accounts payable and accrued expenses	97,052	109,061
Dividends payable	40,861	40,800
Security deposits payable	12,095	11,710
Other liabilities and deferred credits	55,088	57,827
Total liabilities	1,895,783	2,013,246
Commitments and contingencies (Note 7)		
Shareholders equity		
Preferred shares, authorized 15,000,000 shares, $.01 par: 5.417% Series 1 Cumulative Convertible Preferred Shares, (stated at liquidation preference $25 per share), 399,896 shares issued and outstanding	9,997	9,997
Common shares of beneficial interest, $.01 par, 100,000,000 shares authorized, 61,341,032 and 61,242,050 shares issued and outstanding, respectively	613	612
Additional paid-in capital	1,656,369	1,653,177
Accumulated dividends in excess of net income	(497,843)	(486,449)
Total shareholders equity of the Trust	1,169,136	1,177,337
Noncontrolling interests	31,425	31,726
Total shareholders equity	1,200,561	1,209,063

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 3,096,344	$ 3,222,309

The accompanying notes are integral part of these consolidated statements.

Table of Contents

Federal Realty Investment Trust

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(In thousands, except per share data)	
REVENUE		
Rental income	$ 131,492	$ 127,206
Other property income	5,912	2,603
Mortgage interest income	1,066	1,267
Total revenue	138,470	131,076
EXPENSES		
Rental expenses	30,003	28,697
Real estate taxes	15,104	13,832
General and administrative	5,375	5,145
Litigation provision	114	20,632
Depreciation and amortization	28,932	28,592
Total operating expenses	79,528	96,898
OPERATING INCOME	58,942	34,178
Other interest income	182	90
Interest expense	(25,962)	(23,583)
Early extinguishment of debt	(2,801)	14
Income from real estate partnership	193	202
INCOME FROM CONTINUING OPERATIONS	30,554	10,901
DISCONTINUED OPERATIONS		
Income from discontinued operations		57
Gain on sale of real estate from discontinued operations		915
Results from discontinued operations		972
NET INCOME	30,554	11,873
Net income attributable to noncontrolling interests	(1,334)	(1,389)
NET INCOME ATTRIBUTABLE TO THE TRUST	29,220	10,484
Dividends on preferred shares	(135)	(135)
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	$ 29,085	$ 10,349
EARNINGS PER COMMON SHARE, BASIC		
Continuing operations	$ 0.47	$ 0.16
Discontinued operations		0.01
	$ 0.47	$ 0.17

EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	$	0.47	$	0.16
Discontinued operations				0.01
	$	0.47	$	0.17

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

Federal Realty Investment Trust

Consolidated Statement of Shareholders Equity

For the Three Months Ended March 31, 2010

(Unaudited)

	Shareholders Equity of the Trust							
	Preferred Shares		Common Shares			Accumulated Dividends in Excess of Net Income		
	Shares	Amount	Shares	Amount	Additional Paid-in Capital		Noncontrolling Interests	Total Shareholders Equity
	(In thousands, except share data)							
BALANCE AT DECEMBER 31, 2009	399,896	$ 9,997	61,242,050	$ 612	$ 1,653,177	$ (486,449)	$ 31,726	$ 1,209,063
Net income/Comprehensive income						29,220	1,334	30,554
Dividends declared to common shareholders						(40,479)		(40,479)
Dividends declared to preferred shareholders						(135)		(135)
Distributions declared to noncontrolling interests							(1,635)	(1,635)
Common shares issued			63		4			4
Exercise of stock options			17,132		714			714
Shares issued under dividend reinvestment plan			9,712		649			649
Share-based compensation expense, net			72,075	1	1,825			1,826
BALANCE AT MARCH 31, 2010	399,896	$ 9,997	61,341,032	$ 613	$ 1,656,369	$ (497,843)	$ 31,425	$ 1,200,561

The accompanying notes are an integral part of these consolidated statements.

6

Table of Contents

Federal Realty Investment Trust

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(In thousands)	
OPERATING ACTIVITIES		
Net income	$ 30,554	$ 11,873
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization, including discontinued operations	28,932	28,592
Litigation provision		20,632
Gain on sale of real estate		(915)
Early extinguishment of senior notes	2,801	(14)
Income from real estate partnership	(193)	(202)
Other, net	959	774
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease in accounts receivable	2,276	4,679
Decrease in prepaid expenses and other assets	2,133	4,798
(Decrease) increase in accounts payable and accrued expenses	(8,034)	2,820
Decrease in security deposits and other liabilities	(1,467)	(451)
Net cash provided by operating activities	57,961	72,586
INVESTING ACTIVITIES		
Capital expenditures development and redevelopment	(5,521)	(22,790)
Capital expenditures other	(5,953)	(6,821)
Distribution from real estate partnership in excess of earnings	180	509
Leasing costs	(2,698)	(1,373)
Investment in mortgage and other notes receivable, net	(11,243)	(430)
Net cash used in investing activities	(25,235)	(30,905)
FINANCING ACTIVITIES		
Net borrowings under revolving credit facility, net of costs	(450)	17,500
Issuance of senior notes, net of costs	148,616	
Purchase and retirement of senior notes/debentures		(6,145)
Repayment of mortgages, capital leases and notes payable	(252,866)	(6,510)
Issuance of common shares	1,367	799
Dividends paid to common and preferred shareholders	(40,553)	(38,480)
Distributions to noncontrolling interests	(1,635)	(1,608)
Net cash used in financing activities	(145,521)	(34,444)
(Decrease) increase in cash and cash equivalents	(112,795)	7,237
Cash and cash equivalents at beginning of year	135,389	15,223
Cash and cash equivalents at end of period	$ 22,594	$ 22,460

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

Federal Realty Investment Trust

Notes to Consolidated Financial Statements

March 31, 2010

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

Federal Realty Investment Trust (the Trust) is an equity real estate investment trust (REIT) specializing in the ownership, management, and redevelopment of retail and mixed-use properties. Our properties are located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Mid-Atlantic and Northeast regions of the United States, as well as in California. As of March 31, 2010, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 84 predominantly retail real estate projects.

We operate in a manner intended to enable us to qualify as a REIT for federal income tax purposes. A REIT that distributes at least 90% of its taxable income to its shareholders each year and meets certain other conditions is not taxed on that portion of its taxable income which is distributed to its shareholders. Therefore, federal income taxes on our taxable income have been and are generally expected to be immaterial. We are obligated to pay state taxes, generally consisting of franchise or gross receipts taxes in certain states. Such state taxes also have not been material.

Basis of Presentation

Our consolidated financial statements include the accounts of the Trust, its corporate subsidiaries, and all entities in which the Trust has a controlling interest or has been determined to be the primary beneficiary of a variable interest entity (VIE). The equity interests of other investors are reflected as noncontrolling interests. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interests in joint ventures, which we do not control or manage, using the equity method of accounting. Certain 2009 amounts have been reclassified to conform to current period presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, referred to as GAAP, requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Consolidated Statements of Cash Flows Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated Statements of Cash Flows:

	Three Months Ended March 31, 2010	2009
	(In thousands)	
SUPPLEMENTAL DISCLOSURES:		
Total interest costs incurred	$ 27,489	$ 24,950
Interest capitalized	(1,527)	(1,367)
Interest expense	$ 25,962	$ 23,583
Cash paid for interest, net of amounts capitalized	$ 32,620	$ 24,033
Cash (received) paid for income taxes	$ (28)	$ 25

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued a new accounting standard which provides certain changes to the evaluation of a VIE including requiring a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, continuous assessments of whether an enterprise is the primary beneficiary of a VIE, and enhanced disclosures about an enterprise s involvement with a VIE. Under the new standard, the primary beneficiary has both the power to direct the activities that most significantly impact economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

We adopted the standard effective January 1, 2010. The adoption did not have a material impact to our financial statements. The newly required balance sheet disclosures regarding assets and liabilities of a consolidated VIE have been parenthetically included in

Federal Realty Investment Trust

Notes to Consolidated Financial Statements (Continued)

March 31, 2010

(Unaudited)

our balance sheet. These parenthetical amounts relate to Melville Mall in Huntington, New York and a shopping center and adjacent commercial building in Norwalk, Connecticut, which is further discussed in Note 3 below.

Although the adoption of this standard did not have a material impact to our financial statements, this standard could impact future consolidation of entities based on the specific facts and circumstances of those entities.

During the quarter ended March 31, 2010, the FASB issued an amendment eliminating the requirement to disclose the date through which subsequent events have been evaluated, which was effective upon issuance of the amendment. Consequently, this disclosure is no longer included in the notes to our financial statements.

NOTE 2 REAL ESTATE

During the three months ended March 31, 2010, we had no acquisitions or dispositions.

NOTE 3 MORTGAGE NOTES RECEIVABLE

On March 30, 2010, we acquired the first mortgage loan on a shopping center located in Norwalk, Connecticut. The first mortgage loan has an outstanding principal balance of $10.9 million, bears interest at 7.25% and matures on September 1, 2032. Since November 5, 2008, we have held the second mortgage on this shopping center and a first mortgage on an adjacent commercial building which has an outstanding balance of $7.4 million at March 31, 2010. All of these loans are currently in default and foreclosure proceedings have been filed. If we foreclose on the properties, we believe the fair value of the properties approximates our carrying amount of these loans which are on non-accrual status.

As the loans are in default, we have certain participating rights under the first mortgage loan agreement. Therefore, while we are not currently exercising those rights and do not expect to exercise certain of those rights, the loan agreement gives us the ability to direct the activities that most significantly impact the shopping center resulting in the entity being a VIE. Additionally, given our investment in both the first and second mortgage on the property, the overall decline in fair market value since the loans were initiated, and the current default status of the loans, we also have the obligation to absorb losses or rights to receive benefits that could potentially be significant to the VIE. Consequently, we have determined we are the primary beneficiary of this VIE and consolidated the shopping center and adjacent building as of March 30, 2010. Therefore, our investment in the property is included in real estate in the consolidated balance sheet as of March 31, 2010.

NOTE 4 REAL ESTATE PARTNERSHIP

We have a joint venture arrangement (the Partnership) with affiliates of a discretionary fund created and advised by ING Clarion Partners (Clarion). We own 30% of the equity in the Partnership and Clarion owns 70%. We hold a general partnership interest, however, Clarion also holds a general partnership interest and has substantive participating rights. We cannot make significant decisions without Clarion s approval. Accordingly, we account for our interest in the Partnership using the equity method. As of March 31, 2010, the Partnership owned seven retail real estate properties. We are the manager of the Partnership and its properties, earning fees for acquisitions, dispositions, management, leasing, and financing. Intercompany profit generated from fees is eliminated in consolidation. We also have the opportunity to receive performance-based earnings through our Partnership interest. The Partnership is subject to a buy-sell provision which is customary for real estate joint venture agreements and the industry. Either partner may initiate these provisions at any time, which could result in either the sale of our interest or the use of available cash or borrowings to acquire Clarion s interest.

The following tables provide summarized operating results and the financial position of the Partnership:

	Three Months Ended March 31, 2010	2009
	(In thousands)	
OPERATING RESULTS		
Revenue	$ 4,655	$ 4,688
Expenses		
Other operating expenses	1,962	1,656
Depreciation and amortization	1,268	1,271
Interest expense	852	1,133
Total expenses	4,082	4,060
Net income	$ 573	$ 628
Our share of net income from real estate partnership	$ 193	$ 202

Table of Contents

Federal Realty Investment Trust

Notes to Consolidated Financial Statements (Continued)

March 31, 2010

(Unaudited)

	March 31, 2010	December 31, 2009
	(In thousands)	
BALANCE SHEETS		
Real estate, net	$ 182,795	$ 183,757
Cash	3,614	2,959
Other assets	6,574	6,853
Total assets	$ 192,983	$ 193,569
Mortgages payable	$ 57,732	$ 57,780
Other liabilities	6,108	6,101
Partners capital	129,143	129,688
Total liabilities and partners capital	$ 192,983	$ 193,569
Our share of unconsolidated debt	$ 17,320	$ 17,334
Our investment in real estate partnership	$ 35,453	$ 35,633

NOTE 5 DEBT

On January 28, 2010, we delivered notice exercising our option to extend the maturity date by one year to July 27, 2011 of our revolving credit facility, which bears interest at LIBOR plus 42.5 basis points. We paid an extension fee of $0.5 million which is being amortized over the remaining term of the revolving credit facility.

On March 1, 2010, we issued $150.0 million of fixed rate senior notes that mature on April 1, 2020 and bear interest at 5.90%. The net proceeds from this note offering after issuance discounts, underwriting fees and other costs were $148.5 million.

On various dates from February 25, 2010 to March 2, 2010, we repaid the remaining $250.0 million balance of our term loan. The term loan had an original maturity date of July 27, 2011, however, the loan agreement included an option to prepay the loan, in whole or in part, at any time without premium or penalty. Due to these repayments, approximately $2.8 million of unamortized debt fees were recorded as additional interest expense in 2010 and are included in early extinguishment of debt in the consolidated statement of operations. The term loan was repaid using cash on hand and cash from the $150.0 million note issuance.

As of and for the three months ended March 31, 2010, there was no balance outstanding on our revolving credit facility.

Our revolving credit facility and certain notes require us to comply with various financial covenants, including the maintenance of minimum shareholders equity and debt coverage ratios and a maximum ratio of debt to net worth. As of March 31, 2010, we were in compliance with all loan covenants.

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed below, the carrying amount of our financial instruments approximates their fair value. The fair value of our mortgages payable, notes payable, and senior notes and debentures is sensitive to fluctuations in interest rates. Quoted market prices were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis is generally used to estimate the fair value of our mortgages and notes payable. Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the carrying amount and fair value of our mortgages payable, notes payable and senior notes and debentures is as follows:

	March 31, 2010	
	Carrying Value	**Fair Value**
	(In thousands)	
Mortgages and notes payable	$ 548,823	$ 581,121
Senior notes and debentures	$ 1,079,906	$ 1,127,679

Table of Contents

Federal Realty Investment Trust

Notes to Consolidated Financial Statements (Continued)

March 31, 2010

(Unaudited)

NOTE 7 COMMITMENTS AND CONTINGENCIES

We are currently a party to various legal proceedings. Other than as described below, we do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations; however, litigation is subject to inherent uncertainties. Also under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us (1) as owner of the properties due to certain matters relating to the operation of the properties by the tenant, and (2) where appropriate, due to certain matters relating to the ownership of the properties prior to their acquisition by us.

In May 2003, a breach of contract action was filed against us in the United States District Court for the Northern District of California, San Jose Division, alleging that a one page document entitled Final Proposal constituted a ground lease of a parcel of property located adjacent to our Santana Row property and gave the plaintiff the option to require that we acquire the property at a price determined in accordance with a formula included in the Final Proposal. The Final Proposal explicitly stated that it was subject to approval of the terms and conditions of a formal agreement. A trial as to liability only was held in June 2006 and a jury rendered a verdict against us.

A trial on the issue of damages was held in April 2008 and the court issued a tentative ruling in April 2009 awarding damages to the plaintiff of approximately $14.4 million plus interest. Accordingly, considering all the information available to us when we filed our March 31, 2009 Form 10-Q, our best estimate of damages, interest, and other costs was $21.4 million resulting in an increase in our accrual for this matter of $20.6 million. In June 2009, the court issued a final judgment awarding damages of $15.9 million (including interest) plus costs of suit and in July 2009, we and the plaintiff both filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit. In December 2009, the plaintiff filed an appellee s principal and response brief providing additional information regarding the issues the plaintiff is appealing. Given the additional information regarding the appeal, we lowered our accrual to $16.4 million in the fourth quarter 2009, which reflects our best estimate of the litigation liability. The net increase in our accrual in 2009 is included in litigation provision in our consolidated statement of operations, and the $16.4 million accrual is included in the accounts payable and accrued expenses line item in our consolidated balance sheets. During 2009 and 2010, we incurred additional legal and other costs related to this lawsuit and appeal process which are also included in the litigation provision line item in the consolidated statement of operations.

We expect oral arguments on the appeal to be scheduled for later in 2010. The enforcement of the judgment has been stayed until completion of the appeals. Furthermore, we continue to believe that the Final Proposal which included express language that it was subject to formal documentation was not a binding contract and that we should have no liability whatsoever, and will vigorously defend our position as part of the appeal process.

Under the terms of certain partnership agreements, the partners have the right to exchange their operating partnership units for cash or the same number of our common shares, at our option. A total of 371,260 operating partnership units are outstanding which have a total fair value of $27.0 million, based on our closing stock price on March 31, 2010.

NOTE 8 SHAREHOLDERS EQUITY

The following table provides a summary of dividends declared and paid per share:

	Three months Ended March 31,			
	2010		2009	
	Declared	Paid	Declared	Paid

Common shares	$ 0.660	$ 0.660	$ 0.650	$ 0.650
5.417% Series 1 Cumulative Convertible Preferred	$ 0.339	$ 0.339	$ 0.339	$ 0.339

Table of Contents

Federal Realty Investment Trust

Notes to Consolidated Financial Statements (Continued)

March 31, 2010

(Unaudited)

NOTE 9 COMPONENTS OF RENTAL INCOME

The principal components of rental income are as follows:

	Three Months Ended March 31, 2010	2009
	(In thousands)	
Minimum rents		
Retail and commercial	$ 93,973	$ 93,517
Residential	5,293	5,272
Cost reimbursement	28,933	25,578
Percentage rent	1,461	1,501
Other	1,832	1,338
Total rental income	$ 131,492	$ 127,206

Minimum rents include $1.1 million and $1.4 million for the three months ended March 31, 2010 and 2009, respectively, to recognize minimum rents on a straight-line basis. In addition, minimum rents include $0.4 million for the three months ended March 31, 2010 and 2009, to recognize income from the amortization of in-place leases. Residential minimum rents consist of the rental amounts for residential units at Rollingwood Apartments, the Crest at Congressional Plaza Apartments, Santana Row, and Bethesda Row.

NOTE 10 SHARE-BASED COMPENSATION PLANS

A summary of share-based compensation expense included in net income is as follows:

	Three Months Ended March 31, 2010	2009
	(In thousands)	
Share-based compensation incurred		
Grants of common shares	$ 1,554	$ 1,722
Grants of options	272	426
	1,826	2,148
Capitalized share-based compensation	(193)	(210)
Share-based compensation expense	$ 1,633	$ 1,938

NOTE 11 EARNINGS PER SHARE

We have calculated earnings per share (EPS) under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating securities is calculated according to dividends declared and participation rights in undistributed earnings. For the three months ended March 31, 2010 and 2009, we had approximately 0.2 million weighted average unvested shares outstanding which are considered participating securities. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares; the portion of earnings allocated to the unvested shares is reflected as earnings allocated to unvested shares in the reconciliation below.

In the dilutive EPS calculation, dilutive stock options were calculated using the treasury stock method consistent with prior periods; certain stock options have been excluded as they were anti-dilutive. The conversions of downREIT operating partnership units and Series 1 Preferred Shares are anti-dilutive for all periods presented and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

Table of Contents

Federal Realty Investment Trust

Notes to Consolidated Financial Statements (Continued)

March 31, 2010

(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands, except per share data)	
NUMERATOR		
Income from continuing operations	$ 30,554	$ 10,901
Less: Preferred share dividends	(135)	(135)
Less: Net income attributable to noncontrolling interests	(1,334)	(1,389)
Less: Earnings allocated to unvested shares	(134)	(130)
Income from continuing operations available for common shareholders	28,951	9,247
Results from discontinued operations		972
Net income available for common shareholders, basic and diluted	$ 28,951	$ 10,219
DENOMINATOR		
Weighted average common shares outstanding basic	61,089	58,841
Effect of dilutive securities:		
Stock options	131	119
Weighted average common shares outstanding diluted	61,220	58,960
EARNINGS PER COMMON SHARE, BASIC		
Continuing operations	$ 0.47	$ 0.16
Discontinued operations		0.01
	$ 0.47	$ 0.17
EARNINGS PER COMMON SHARE, DILUTED		
Continuing operations	$ 0.47	$ 0.16
Discontinued operations		