

NEW PLAN EXCEL REALTY TRUST INC
Form 10-Q
August 07, 2003

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 JUNE 30,
2003**

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)

212-869-3000

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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 August 1, 2003 was 97,437,190.

Forward-Looking Statements

This Quarterly Report of 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:

changes in the global political environment

changes in the 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 rate of revenue increases versus expense increases

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 SEC or in other documents that we publicly disseminate.

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2003 and 2002

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	(Unaudited)		(Unaudited)	
Rental revenues:				
Rental income	\$ 95,906	\$ 78,875	\$ 191,133	\$ 145,550
Percentage rents	1,956	1,482	3,717	3,856
Expense reimbursements	23,723	20,431	48,094	35,533
Total rental revenues	121,585	100,788	242,944	184,939
Expenses:				
Operating costs	23,298	16,999	46,416	30,313
Real estate and other taxes	14,779	11,857	30,464	21,261
Interest	24,908	24,046	50,970	43,754
Depreciation and amortization	18,828	17,137	37,730	31,964
Provision for doubtful accounts	1,946	2,007	3,758	4,689
General and administrative	4,204	5,432	8,434	9,125
Total expenses	87,963	77,478	177,772	141,106
Income before real estate sales, impairment of real estate, minority interest and other income and expenses	33,622	23,310	65,172	43,833
Other income and expenses:				
Interest, dividend and other income	1,932	2,736	5,294	5,898
Equity in income of unconsolidated ventures	1,188	838	1,661	2,556
Foreign currency gain		403		384
Gain on sale of real estate		52		371
Minority interest in income of consolidated partnership	(375)	(104)	(776)	(344)
Income from continuing operations	36,367	27,235	71,351	52,698
Discontinued operations:				
(Loss) income from discontinued operations (Note 5)	(3,838)	3,526	(3,633)	51
Net income	\$ 32,529	\$ 30,761	\$ 67,718	\$ 52,749
Preferred dividends	(5,753)	(5,646)	(10,612)	(11,305)
Premium on redemption of preferred stock	(630)		(630)	

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Net income available to common stock	basic		26,146		25,115		56,476		41,444
Minority interest in income of consolidated partnership			375		104		776		344
Net income available to common stock	diluted	\$	26,521	\$	25,219	\$	57,252	\$	41,788

Basic earnings per common share:

Income from continuing operations		\$	0.31	\$	0.23	\$	0.62	\$	0.44
Discontinued operations			(0.04)		0.04		(0.04)		
Basic earnings per share		\$	0.27	\$	0.27	\$	0.58	\$	0.44

Diluted earnings per common share:

Income from continuing operations		\$	0.31	\$	0.22	\$	0.61	\$	0.44
Discontinued operations			(0.04)		0.04		(0.04)		
Diluted earnings per share		\$	0.27	\$	0.26	\$	0.57	\$	0.44

Average shares outstanding	basic		97,112		94,701		97,025		93,453
Average shares outstanding	diluted		99,953		96,216		99,750		95,056

Other comprehensive income:

Net income		\$	32,529	\$	30,761	\$	67,718	\$	52,749
Unrealized gain on available-for-sale securities			124		124		305		317
Realized / unrealized losses on interest risk hedges			(784)		(1,169)		(688)		(239)
Comprehensive income		\$	31,869	\$	29,716	\$	67,335	\$	52,827

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2003 and December 31, 2002

(In thousands, except par value amounts)

	June 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Real estate:		
Land	\$ 843,529	\$ 830,376
Building and improvements	2,805,698	2,735,046
Accumulated depreciation and amortization	(326,771)	(295,946)
Net real estate	3,322,456	3,269,476
Real estate held for sale	17,674	21,276
Cash and cash equivalents	9,654	8,528
Restricted cash	17,565	52,930
Marketable securities	2,420	2,115
Receivables:		
Trade, less allowance for doubtful accounts of \$15,939 and \$15,307 at June 30, 2003 and December 31, 2002, respectively	62,445	46,990
Other, net	18,342	43,479
Mortgages and notes receivable	13,961	2,632
Prepaid expenses and deferred charges	36,925	21,527
Investments in/advances to unconsolidated ventures	29,721	31,234
Other assets	14,735	15,092
Total assets	\$ 3,545,898	\$ 3,515,279
LIABILITIES AND STOCKHOLDERS EQUITY		

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Liabilities:

Mortgages payable, including unamortized premium of \$18,797 and \$20,403 at June 30, 2003 and December 31, 2002, respectively	\$	557,015	\$	671,200
Notes payable, net of unamortized discount of \$3,149 and \$2,222 at June 30, 2003 and December 31, 2002, respectively		897,967		783,927
Notes payable, other				28,349
Credit facilities		280,000		230,000
Capital leases		28,716		28,866
Dividends payable		44,564		44,836
Other liabilities		92,088		106,690
Tenant security deposits		9,710		9,128
Total liabilities		1,910,060		1,902,996
Minority interest in consolidated partnership		38,863		39,434

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value, 25,000 shares authorized: Series B: 6,300 depositary shares, each representing 1/10 of one share of 8 5/8% Series B Cumulative Redeemable Preferred, 0 and 630 shares outstanding at June 30, 2003 and December 31, 2002, respectively; Series D: 1,500 depositary shares, each representing 1/10 of one share of Series D Cumulative Voting Step-Up Premium Rate Preferred, 150 shares outstanding at June 30, 2003 and December 31, 2002; Series E: 8,000 depositary shares, each representing 1/10 of one share of 7.625% Series E Cumulative Redeemable Preferred, 800 and 0 shares outstanding at June 30, 2003 and December 31, 2002, respectively		10		8
Common stock, \$.01 par value, 250,000 shares authorized: 97,292 and 96,916 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively		972		968
Additional paid-in capital		1,873,819		1,825,820
Accumulated other comprehensive loss		(976)		(593)
Accumulated distribution in excess of net income		(276,850)		(253,354)
Total stockholders' equity	\$	1,596,975	\$	1,572,849
Total liabilities and stockholders' equity	\$	3,545,898	\$	3,515,279

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002

(Unaudited, in thousands)

	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net income	\$ 67,718	\$ 52,749
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	38,059	34,943
Amortization of net premium/discount on mortgages and notes payable	(1,382)	(545)
Amortization of deferred debt and loan acquisition costs	964	1,886
Foreign currency gain		(384)
Gain on sale of real estate and securities		(170)
Gain on sale of discontinued operations	(3,566)	(1,823)
Minority interest in income of consolidated partnership	776	344
Impairment of real estate assets	8,029	13,604
Equity in income of unconsolidated ventures	(1,661)	(2,556)
Changes in operating assets and liabilities, net:		
Change in trade receivables	(15,454)	(5,529)
Change in other receivables	25,137	(820)
Change in other liabilities	(15,434)	21,486
Change in tenant security deposits	582	2,208
Change in dividends payable	(272)	3,174
Change in sundry assets and liabilities	(9,790)	843
Net cash provided by operating activities	93,706	119,410
Cash flows from investing activities:		
Real estate acquisitions and building improvements	(31,589)	(24,754)
Proceeds from real estate sales, net	28,934	16,377
Cash in escrow	35,366	(2,880)
Advances for mortgage notes receivable		(281)
Repayments of mortgage notes receivable	(11,329)	2,075
Acquisitions, net of cash and restricted cash received (Note 3)	(75,392)	(389,571)
Leasing commissions paid	(3,617)	
Capital contributions to joint ventures	(1,353)	(4,004)
Distributions from joint ventures	2,997	7,450
Net cash used in investing activities	(55,983)	(395,588)
Cash flows from financing activities:		
Principal payments of mortgages and notes payable	(125,429)	(101,761)
Dividends paid	(90,718)	(89,232)
Proceeds from credit facility borrowing	385,000	605,000

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Repayment of credit facility	(335,000)	(495,000)
Financing fees	(1,693)	(6,098)
Cash paid for forward starting swaps		(1,914)
Redemption of limited partnership units	(29)	
Proceeds from exercise of stock options	5,116	5,205
Distributions paid to minority partners	(815)	(1,074)
Repayment of loans receivable for the purchase of common stock	5,778	52
Repayment of notes payable, other	(28,349)	
Proceeds from preferred stock offering, net	193,192	
Redemption of preferred stock, net	(157,500)	
Proceeds from convertible debt offering, net	113,850	
Proceeds from common stock offering, net		120,907
Proceeds from bond issuance, net		249,150
Net cash (used in) provided by financing activities	(36,597)	285,235
Net increase in cash and cash equivalents	1,126	9,057
Cash and cash equivalents at beginning of period	8,528	7,163
Cash and cash equivalents at end of period	\$ 9,654	\$ 16,220
Supplemental Disclosure of Non-cash Activities:		
Cash paid for interest	\$ 53,773	\$ 41,925
Capitalized interest	1,963	1,515
State and local taxes paid	1,240	275
Mortgages assumed in acquisition	12,636	288,500

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

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 operation of retail properties throughout the United States.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules of the Securities and Exchange Commission (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). All significant intercompany transactions and balances have been eliminated. 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 and six months ended June 30, 2003 and 2002 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 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 the conversion of preferred stock (using the if converted method), the exercise of in-the-money stock options and the conversion of Excel Realty Partners, L.P. (ERP) limited partnership units.

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. As of December 31, 2002, restricted cash balances also contained escrow funds held for the repayment of a promissory note issued in connection with the Equity Investment Group portfolio acquisition (Note 3). 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 \$15.9 million and \$15.3 million as of June 30, 2003 and December 31, 2002, 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

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 asset) 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

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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% to 10%. Interest is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders' equity. At June 30, 2003 and December 31, 2002, the Company had aggregate loans to employees of approximately \$1.1 million and \$6.9 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, 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 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 June 30, 2003 and December 31, 2002, approximately \$2.2 million and \$2.8 million 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 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. At June 30, 2003, the liability for self-insured losses is included in accrued expenses and was approximately \$0.4 million.

Revenue Recognition

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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 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, the Company is required to, among other things, 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 corporate 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 June 30, 2003, the Company's TRSs had a tax net operating loss (NOL) carryforward of approximately \$18.4 million, expiring from 2013 to 2016.

Segment Information

The principal business of the Company is the ownership and operation of retail 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 GAAP. Further, all operations are within the United States and no tenant comprises more than 10% of revenue.

Recently Issued Accounting Standards

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 Company does not expect the adoption of SFAS No. 150 to have a material impact on 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, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and (4) amends certain other existing pronouncements. Those 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 is not expected to have a material impact on the Company.

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In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), an interpretation of ABR 51. 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 a significant variable interest in a 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 VIEs created after January 31, 2003. For variable interests in VIEs created before February 1, 2003, the provisions of FIN 46 are effective for the first interim period beginning after June 15, 2003. The Company's potential variable interests in VIEs are its Investments in/advances to unconsolidated ventures described in Note 7. The Company does not expect the adoption of FIN 46 to have a material impact on the Company.

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, a 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 shall be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions 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 awards granted, modified or settled after January 1, 2003. Accordingly, options which the Company granted in 2003 were valued at approximately \$0.8 million and will be amortized over the related vesting periods of the options.

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.

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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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 32,529	\$ 30,761	\$ 67,718	\$ 52,749
Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(491)	(540)	(982)	(1,080)
Pro forma net income	\$ 32,038	\$ 30,221	\$ 66,736	\$ 51,669
Earnings per share:				
Basic as reported	\$ 0.27	\$ 0.27	\$ 0.58	\$ 0.44
Basic pro forma	\$ 0.26	\$ 0.26	\$ 0.57	\$ 0.43
Diluted as reported	\$ 0.27	\$ 0.26	\$ 0.57	\$ 0.44
Diluted pro forma	\$ 0.26	\$ 0.26	\$ 0.56	\$ 0.43

In November 2002, FASB issued FASB Interpretation No. 45, *Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) (an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34). FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for Contingencies*. It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless of whether or not the guarantor receives separate identifiable consideration (i.e., a premium). The Company adopted the new disclosure requirements, effective beginning with the consolidated financial statements for the 2002 fiscal year. FIN 45's provisions for initial recognition and measurement are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on the Company.

In July 2002, FASB issued Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring)*. It addresses when to recognize a liability for a cost associated with an exit or disposal activity such as, but not limited to, termination benefits provided to current employees that are involuntarily terminated, costs to terminate a contract that is not a capital lease and costs to consolidate facilities or relocate employees. SFAS No. 146 does not apply to entities newly acquired in a business combination or with a disposal activity covered by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144) and to costs associated with the retirement of long-lived assets covered by FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 146 states that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred and not at the date of an entity's commitment to a plan, as previously defined in Issue 94-3. The provisions of SFAS No. 146 shall be applied for exit and disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company.

In April 2002, FASB issued Statement 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections* (SFAS No. 145). This statement rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. Debt extinguishments that do not meet the criteria for classification as extraordinary items in APB Opinion No. 30 should not be classified as extraordinary. The provisions of

SFAS No. 145 shall be applied in fiscal years beginning after May 15, 2002. Debt extinguishments that were classified as extraordinary in prior periods presented that do not meet the criteria of APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. The Company adopted this statement, as required, effective January 1, 2003, and the adoption of SFAS No. 145 did not have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2002, the Company adopted SFAS No. 144. This statement addresses financial accounting and reporting for the impairment of long-lived assets and for the disposition of long-lived assets. 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 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 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. SFAS No. 144 requires that the provisions of this statement be adopted prospectively. Accordingly, real estate designated as held for sale prior to January 1, 2002 will continue to be accounted for under the provisions of Statement 121, *Accounting for the Impairment of Long-Lived Assets*, and the results of operations, including impairment, gains and losses, of these properties are included in income from continuing operations. Real estate designated as held for sale subsequent to January 1, 2002 will be accounted for in accordance with the provisions of SFAS No. 144 and the results of operations of these properties are included in income from discontinued operations. Prior periods have been restated for comparability, as required.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 current period presentation.

Note 3: Acquisitions and Dispositions

Spartan Acquisition

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 acquisition was financed through borrowings under the Company's \$350 million revolving credit facility.

EIG Acquisition

On December 12, 2002, the Company acquired a portfolio of 57 community and neighborhood shopping centers from Equity Investment Group, a private retail-focused REIT. The acquisition of one additional shopping center from Equity Investment Group was completed on January 3, 2003 (collectively, the EIG Acquisition). The aggregate purchase price for the acquisition was approximately \$437 million, consisting of the assumption of approximately \$149 million of outstanding indebtedness, the issuance of approximately \$25 million of units in ERP and approximately \$263 million in cash. The cash component of the acquisition was financed with proceeds generated from the sale of four of

the Company's factory outlet centers (see Factory Outlet Center Disposition below) and through borrowings under the Company's \$350 million revolving credit facility.

CenterAmerica Acquisition

On March 1, 2002, the Company acquired a portfolio of 92 community and neighborhood shopping centers (the CenterAmerica Acquisition) from CenterAmerica Property Trust, L.P., a private company majority owned by Morgan Stanley Real Estate Fund II. As part of the transaction, the Company also acquired a 10% managing membership interest in a joint venture with a private U.S. pension fund. The joint venture currently owns 14 grocery-anchored shopping centers located in six states. The aggregate purchase price for the acquisition was approximately \$654 million, consisting of approximately \$365 million in cash and the assumption of approximately \$289 million of outstanding indebtedness. The cash component of the acquisition was financed with the proceeds of a public equity offering of the Company's common stock and with borrowings under the Company's then existing credit facilities and a \$125 million senior unsecured term loan facility.

Other Acquisitions

During the six months ended June 30, 2003, the Company acquired the remaining 50% interest in Vail Ranch II, a community shopping center in the later stages of development, and Panama City Square. Vail Ranch II is located in Temecula, California, and the 50% interest was acquired on February 25, 2003 for approximately \$1.5 million in cash and the satisfaction of \$9.0 million of mortgage indebtedness on the property. Panama City Square is a 289,119 square foot shopping center located in Panama City, Florida and was acquired on June 25, 2003 for approximately \$18.3 million, including the assumption of \$12.7 million of mortgage indebtedness.

In fiscal 2002, the Company acquired three properties, Midway Market Square, Superior Marketplace and Whitestown Plaza. Midway Market Square, a 234,670 square foot grocery-anchored community shopping center located in Elyria, Ohio, was acquired on November 20, 2002 for approximately \$23.7 million, including approximately \$17.8 million of assumed mortgage indebtedness. Superior Marketplace was acquired on July 31, 2002 from The Ellman Companies for approximately \$13.6 million in cash and the satisfaction of \$38.0 million of notes receivable and accrued interest. Superior Marketplace is an existing 148,302 square foot grocery-anchored community shopping center located in Superior, Colorado, northwest of Denver. The shopping center is currently in the later stages of development and is expected to total 295,602 square feet upon completion. Whitestown Plaza, an 80,612 square foot shopping center located in Whitesboro, New York, was acquired on April 3, 2002 in consideration of \$3.8 million of notes and interest receivable.

Factory Outlet Center Disposition

On December 19, 2002, the Company and Chelsea Property Group, Inc. completed the sale by the Company of four of its factory outlet centers (the Factory Outlet Disposition). The four properties included St. Augustine Outlet Center, located in St. Augustine, Florida; Factory Merchants Branson, located in Branson, Missouri; Factory Outlet Village Osage Beach, located in Osage Beach, Missouri; and Jackson Outlet Village, located in Jackson, New Jersey. As consideration for the four properties, the Company received gross proceeds of approximately \$193 million, and after costs associated with the disposition, the gain on sale was approximately \$79 million, and was included in income (loss) from discontinued operations. The proceeds were used to pay down a portion of the balance outstanding under the Company's \$350 million revolving credit facility, which had been drawn to fund a portion of the EIG Acquisition.

Other Dispositions

During the six months ended June 30, 2003, the Company sold 15 properties and two land parcels for aggregate gross proceeds of approximately \$30.4 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/loss on sale as income (loss) from discontinued operations (Note 5).

During the six months ended June 30, 2002, the Company sold six properties, one outparcel and approximately 0.2 acres of land for aggregate gross proceeds of approximately \$17.0 million. The gain from these sales was approximately \$2.0 million and is allocated between Gain on sale of real estate and (Loss) gain on sale of discontinued operations in accordance with the provisions of SFAS No. 144.

Note 4: Real Estate Held for Sale

As of June 30, 2003, seven retail properties, two land parcels and one outparcel were classified as Real estate held for sale. These properties are located in eight states and have an aggregate gross leasable area of approximately 0.6 million square feet. Such properties had an aggregate book value of approximately \$17.7 million, net of accumulated depreciation of approximately \$4.0 million and impairment charges of \$6.0 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 (loss) from discontinued operations (Note 5).

As of December 31, 2002, 11 retail properties and two land parcels were classified as Real estate held for sale. These properties were located in seven states and had an aggregate gross leasable area of approximately 0.5 million square feet. Such properties had an aggregate book value of approximately \$21.3 million, net of accumulated depreciation of approximately \$4.0 million and impairment charges of approximately \$3.5 million. In accordance with SFAS No. 144, 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 (loss) from discontinued operations.

Note 5: Income (Loss) from Discontinued Operations

The following is a summary of income (loss) from discontinued operations for the three and six months ended June 30, 2003 and 2002 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Total revenue				
Real estate held for sale	\$ 564	\$ 475	\$ 1,091	\$ 912
Other discontinued operations	709	9,991	1,177	20,158
Total revenue	1,273	10,466	2,268	21,070
Operating costs				
Real estate held for sale	137	87	273	135
Other discontinued operations	7	2,298	180	4,413
Real estate taxes				
Real estate held for sale	98	51	237	86
Other discontinued operations	12	578	65	1,130
Provision for doubtful accounts				
Real estate held for sale	18	28	66	(32)
Other discontinued operations	234	11	288	269
Interest expense				
Real estate held for sale				
Other discontinued operations		37		50
Depreciation and amortization				
Real estate held for sale	103	159	220	235
Other discontinued operations	10	1,264	109	2,743
General and administrative expense				
Real estate held for sale				
Other discontinued operations		7		8
Total operating costs	619	4,520	1,438	9,037
Income from discontinued operations before impairment and gain on sale	654	5,946	830	12,033
Impairment of real estate held for sale	(4,575)	(4,175)	(8,029)	(13,604)
Gain on sale of other discontinued operations	83	1,755	3,566	1,622

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(Loss) income from discontinued operations	\$	(3,838)	\$	3,526	\$	(3,633)	\$	51
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Note 6: Pro Forma Financial Information

The following pro forma financial information for the three and six months ended June 30, 2002 is presented as if the Factory Outlet Disposition, the EIG Acquisition, the CenterAmerica Acquisition, and the Company's public offering of 6,900,000 shares of common stock in January 2002 (the Common Stock Offering), had occurred on January 1, 2002. In management's opinion, all adjustments necessary to reflect the effects of these transactions have been made.

	Three Months Ended	June 30, 2002		Six Months Ended
Rental revenues	\$	103,305	\$	209,781
Expenses		(84,078)		(164,702)
Other income		3,577		8,325
Income from continuing operations		22,804		53,404
Net Income	\$	26,330	\$	53,455
Income from continuing operations per share - basic	\$	0.18	\$	0.45
Income from continuing operations per share - diluted	\$	0.18	\$	0.44
Net income per share - basic	\$	0.22	\$	0.45
Net income per share - diluted	\$	0.22	\$	0.44
Average shares outstanding - basic		94,701		94,520
Average shares outstanding - diluted		97,579		97,425

This pro forma financial information is not necessarily indicative of what the actual results of operations of the Company would have been assuming such transactions had been completed as of January 1, 2002, nor do they represent the results of operations of future periods.

Note 7: Investments in/Advances to Unconsolidated Ventures

At June 30, 2003, the Company had investments in four joint ventures: (1) Benbrooke Ventures, (2) CA New Plan Venture Fund, (3) Clearwater Mall and (4) The Centre at Preston Ridge, Phases 1, 2 and 3. The Company accounts for these joint venture investments using the equity method. The following table summarizes the joint

venture projects as of June 30, 2003 and December 31, 2002 (in thousands):

	City	State	JV Partner	Percent Ownership	Investments in/Advances to June 30, 2003	December 31, 2002
<u>Benbrooke Ventures</u>						
(1)						
Rodney Village	Dover	DE	Benbrooke Partners	50%	*	*
Fruitland Plaza	Fruitland	MD	Benbrooke Partners	50%	*	*
Fredricksburg	Spotsylvania	VA	Benbrooke Partners	50%	*	*
					\$ 9,777	\$ 8,894
<u>CA New Plan Venture Fund (2)</u>						
Ventura Downs	Kissimmee	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 Phase 1	Lake Worth	FL	Major U.S. Pension Fund	10%	*	*
Marketplace at Wycliff Phase 2	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%	*	*
					\$ 5,935	\$ 6,371

Clearwater Mall, LLC

(3)

Clearwater Mall	Clearwater	FL	The Sembler Company	50%	\$	4,100	\$	4,007
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Vail Ranch II

Vail Ranch II	Temecula	CA	Land Grand Development	100%(4)			\$	1,256
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The Centre at Preston Ridge

Phase 1 (5)	Frisco	TX	Foreign Investor/George Allen/Milton Schaffer	25%		*		*	
Phase 2 (6)	Frisco	TX	George Allen/Milton Schaffer	50%		*		*	
Phase 3 (6)	Frisco	TX	George Allen/Milton Schaffer	50%		*		*	
						\$	9,909(7)	\$	10,706(7)
Investments in/Advances to Unconsolidated Ventures						\$	29,721	\$	31,234

* Multiple properties held in a single investment joint venture.

(1) The Company receives an 8.5% preferred return on its investment.

(2) The Company receives increased participation after 12% IRR.

(3) The Company receives a 9.5% preferred return on its investment.

(4) As of December 31, 2002, the Company's ownership percentage in this joint venture was 50%. On February 25, 2003, the Company acquired the 50% interest not previously owned. Accordingly, the results of operations for this property subsequent to the acquisition of the remaining 50% have been included in the consolidated results of operations of the Company.

(5) The Company receives increased participation after a 10% return on its investment.

(6) The Company receives a 10% preferred return on its investment.

(7) The Company's investment balance includes approximately \$3.0 million of outstanding notes receivable.

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

Condensed Combined Balance Sheets	June 30, 2003		December 31, 2002	
Cash and cash equivalents	\$	11,513	\$	12,072
Receivables		2,943		4,569
Property and equipment, net of accumulated depreciation		260,789		270,001
Other assets, net of accumulated amortization		6,888		8,265
Total Assets	\$	282,133	\$	294,907
Notes payable	\$	187,438	\$	191,971
Accrued interest		1,553		882
Other liabilities		6,437		6,882
Total liabilities		195,428		199,735
Total partners' capital		86,705		95,172
Total liabilities and partners' capital	\$	282,133	\$	294,907
Company's investments in/advances to	\$	29,721	\$	31,234

Condensed Combined Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Rental revenues	\$ 15,209	\$ 3,776	\$ 24,656	\$ 9,280
Operating expenses	(2,811)	(9)	(5,757)	(1,131)
Interest expense	(2,437)	(1,304)	(5,110)	(2,577)
Other expense, net	(1,451)	(1,854)	(2,692)	(2,439)
Net income	\$ 8,510	\$ 609	\$ 11,097	\$ 3,133
Company's share of net income (1)	\$ 1,188	\$ 838	\$ 1,661	\$ 2,556

(1) Includes preferred returns of \$0.2 million and \$1.1 million for the three months ended June 30, 2003 and 2002, respectively, and \$0.5 and \$2.0 million for the six months ended June 30, 2003 and 2002, respectively.

The following is a brief summary of the joint venture obligations that the Company had as of June 30, 2003:

Benbrooke Ventures. The Company has an investment in a joint venture which owns three community and neighborhood shopping centers located in Dover, Delaware; Fruitland, Maryland; and Spotsylvania, Virginia. 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.

CA New Plan Venture Fund. In connection with the CenterAmerica Acquisition, the Company assumed obligations under a joint venture agreement with a third-party institutional investor. The joint venture had loans outstanding of approximately \$90.1 million as of June 30, 2003. 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 \$5.7 million had been contributed by the Company as of June 30, 2003. The Company anticipates contributing the remaining \$2.6 million during the remainder of 2003.

Clearwater Mall, LLC. In October 2002, the Company contributed its Clearwater Mall property to this joint venture, which is currently redeveloping the property. The joint venture had loans outstanding of approximately \$20.2 million as of June 30, 2003. Under the terms of this joint venture, the Company has a 50% interest in the venture; however, the Company has agreed to contribute 75% of any capital that might be required by the joint venture. The Company does not, however, expect that any significant capital contributions will be required.

The Centre at Preston Ridge Joint Venture. The Company has investments in various joint ventures that own a community shopping center (The Centre at Preston Ridge), a shopping center development site and undeveloped land in Frisco, Texas.

Phase 1. 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's ownership interest was reduced to 25% from 50% on November 25, 2002 when a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in the 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 \$70.0 million as of June 30, 2003.

Phase 2. 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 June 30, 2003, the joint venture had a mortgage loan outstanding of approximately \$3.0 million, payable to the Company.

Phase 3. The Company has a 50% investment in a joint venture that owns a shopping center development site consisting of approximately 5.4 acres of land in Frisco, Texas, on which a 51,000 square foot shopping center is currently under construction. 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 \$4.1 million as of June 30, 2003.

Note 8: Debt Obligations

As of June 30, 2003 and December 31, 2002, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	Maximum Amount Available	Carrying Value as of		Stated Interest Rates	Scheduled Maturity Date
		June 30, 2003	December 31, 2002		
<u>CREDIT FACILITIES</u>					
Fleet Revolving Facility	\$ 350,000	\$ 125,000	\$ 75,000	LIBOR + 105 bp (1)	April 2005
Fleet Term Loan	155,000	155,000	155,000	LIBOR + 115 bp (1)	December 2003
Total Credit Facilities	\$ 505,000	\$ 280,000	\$ 230,000		
<u>MORTGAGES PAYABLE</u>					
Fixed Rate Mortgages		\$ 527,357	\$ 529,256	6.670% - 9.625%	2004 - 2028
Variable Rate Mortgages		10,861	121,541	Variable (2)	2009 - 2011
Total Mortgages		538,218	650,797		
Net unamortized premium		18,797	20,403		
Total Mortgages, net	\$	\$ 557,015	\$ 671,200		
<u>NOTES PAYABLE</u>					
7.33% unsecured notes	\$	49,000	49,000	7.330%	November 2003
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
3.75% unsecured notes (3)		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		899,000	784,000		
Net unamortized discount		(3,149)	(2,222)		
Impact of reverse swap agreement		2,116	2,149		
Total Notes, net	\$	\$ 897,967	\$ 783,927		
NOTES PAYABLE, OTHER (4)	\$	\$	28,349	Variable	N/A

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CAPITAL LEASES	\$	28,716	\$	28,866	7.500%	June 2031
TOTAL DEBT	\$	1,763,698	\$	1,742,342		

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- (1) The Company incurs interest using the 30-day LIBOR rate which was 1.11% as of June 30, 2003.
 - (2) As defined in the applicable loan agreement, the Company incurs interest on these obligations using Moody's A Corporate Bond Index, which was 5.19% as of June 30, 2003, plus spreads ranging from 125 to 375 basis points.
 - (3) Represents convertible senior notes.
 - (4) Represents a promissory note issued in connection with the EIG Acquisition. The note was repaid in full on January 2, 2003.

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 June 30, 2003, the Fleet Revolving Facility bore interest at LIBOR plus 105 basis points, based on the Company's current debt rating.

The Company has a \$155 million senior unsecured term loan facility (the Fleet Term Loan). The facility matures on December 31, 2003 and contains covenants consistent with those contained in the Fleet Revolving Facility. As of June 30, 2003, the Fleet Term Loan bore interest at LIBOR plus 115 basis points, based on the Company's current debt rating.

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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 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, at an initial conversion price of \$25.00 per share. 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.

The Fleet Revolving Facility and the Fleet 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 55%

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%

FFO payout ratio no greater than 95%

On June 11, 2002, the Company completed a public offering of \$250 million aggregate principal amount of 5.875% senior unsecured notes due June 2007 (the Bond Offering). Interest on the notes is payable semi-annually on June 15 and December 15. The notes were priced at 99.66% of par value to yield 5.955%. Net proceeds from the offering were used to repay a portion of the borrowings under the Fleet Revolving Facility.

As of June 30, 2003, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands):

2003 (remaining six months)	\$	211,925
2004		125,749
2005		286,099
2006		28,987
2007		307,063
Thereafter		786,111

Total debt maturities	1,745,934
Net unamortized premiums on mortgages	18,797
Net unamortized discount on notes	(3,149)
Fair value adjustment on debt subject to reverse swap agreement	2,116
Total debt obligations	\$ 1,763,698

Note 9: Risk Management and Use of Financial InstrumentsRisk 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 loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of properties held by the Company.

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 minimize 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.

During the three months ended June 30, 2003, in order to mitigate the potential risk of adverse changes in the LIBOR swap rate, the Company entered into a 10-year forward starting interest rate swap for an aggregate of approximately \$47.0 million in notional amount. This derivative instrument is expected to be used to hedge the risk of changes in interest cash outflows on an anticipated fixed rate financing by effectively locking the LIBOR swap rate at 4.1135%. The swap is expected to be cash settled no later than the pricing of the forecasted hedged debt. The gain or loss on the swap 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.

During the three months ended June 30, 2002, in order to hedge a portion of the expected cash flows on the anticipated long-term fixed rate borrowing, the Company entered into certain derivative instruments based on LIBOR for an aggregate of approximately \$90.0 million in notional amount. Under these agreements, the Company would generally settle the agreement upon consummation of the forecasted issuance of debt, at which time the Company would receive additional cash flow settlement if interest rates rose and pay cash if interest rates fell. On June 11, 2002, upon consummation of the Bond Offering, the Company settled these agreements for approximately \$1.9 million. The effects of such payments are deferred in accumulated other comprehensive income and will be amortized into earnings as an increase in effective interest expense over the term of the fixed rate borrowing.

The following table summarizes the terms and fair values of the Company's derivative financial instruments at June 30, 2003 (in thousands). The notional amount at June 30, 2003 provides an indication of the extent of the Company's involvement in these instruments at that time, but does 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	\$ 2,116
Forward Starting Swap	Cash Flow	47,000	4.114%	08/15/13	(879)
					\$ 1,237

On June 30, 2003, the reverse arrears swap and the forward starting swap were reported at their fair values as Other Assets of \$2.1 million and Other Liabilities of \$0.9 million, respectively. Additionally, the reverse arrears swap was reported as a component of the note payable to which it was assigned. As of June 30, 2003, there were \$2.4 million in deferred losses represented in OCI, representing the unamortized portion of the settlement costs for the hedge on the Bond Offering, as well as the unsettled portion of the forward starting swap.

Over time, the unrealized losses held in OCI will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. 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.

Note 10: Minority Interest in Consolidated Partnership

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 net income 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 shares of common stock of the Company, at the Company's option), cash and the assumption of mortgage indebtedness. These units are convertible into 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 Units	Company Units	Limited Partner Units
Outstanding at December 31, 2002	5,565,066	3,430,524	2,134,542
Redeemed		1,541	(1,541)
Outstanding at June 30, 2003	5,565,066	3,432,065	2,133,001

Note 11: 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 June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Basic EPS				
Numerator:				
Income from continuing operations	\$ 36,367	\$ 27,235	\$ 71,351	\$ 52,698
Preferred dividends	(5,753)	(5,646)	(10,612)	(11,305)
Premium on redemption of preferred stock	(630)		(630)	
Net income available to common shares from continuing operations - basic	29,984	21,589	60,109	41,393
Net (loss) income available to common shares from discontinued operations basic	(3,838)	3,526	(3,633)	51
Net income available to common shares - basic	\$ 26,146	\$ 25,115	\$ 56,476	\$ 41,444
Denominator:				
Weighted average of common shares outstanding	97,112	94,701	97,025	93,453
Earning per share - continuing operations	\$ 0.31	\$ 0.23	\$ 0.62	\$ 0.44
Earnings per share - discontinued operations	(0.04)	0.04	(0.04)	
Basic earnings per common share	\$ 0.27	\$ 0.27	\$ 0.58	\$ 0.44
Diluted EPS				
Numerator:				
Income from continuing operations	\$ 36,367	\$ 27,235	\$ 71,351	\$ 52,698
Preferred dividends	(5,753)	(5,646)	(10,612)	(11,305)
Premium on redemption of preferred stock	(630)		(630)	
Minority interest	375	104	776	344
Net income available to common shares from continuing operations - diluted	30,359	21,693	60,885	41,737
Net (loss) income available to common shares from discontinued operations diluted	(3,838)	3,526	(3,633)	51
Net income available to common shares - diluted	\$ 26,521	\$ 25,219	\$ 57,252	\$ 41,788

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Denominator:							
Weighted average of common shares outstanding basic		97,112		94,701		97,025	93,453
Effect of diluted securities:							
Common stock options		663		621		547	580
Excel Realty Partners, L.P. third party units		2,178		894		2,178	1,023
Weighted average of common shares outstanding diluted		99,953		96,216		99,750	95,056
Earning per share - continuing operations	\$	0.31	\$	0.22	\$	0.61	\$ 0.44
Earnings per share - discontinued operations		(0.04)		0.04		(0.04)	
Diluted earnings per common share	\$	0.27	\$	0.26	\$	0.57	\$ 0.44

Note - Preferred A shares are anti-dilutive for earnings per share calculations. On July 15, 2002, the Company redeemed all Preferred A shares outstanding, resulting in the issuance of approximately 1.9 million shares of common stock.

On January 29, 2002, the Company completed the Common Stock Offering. The net proceeds to the Company from the Common Stock Offering were approximately \$120.7 million, and were used initially to pay down amounts outstanding under the Company's existing revolving credit facilities (which amounts were subsequently re-drawn to finance the CenterAmerica Acquisition).

On July 15, 2002, pursuant to a notice issued to shareholders on June 5, 2002, the Company redeemed all outstanding shares of its Series A Cumulative Convertible Preferred Stock. Each share of Series A preferred stock was

redeemed for 1.24384 shares of common stock of the Company, and resulted in the issuance of approximately 1.9 million shares of common stock at an equivalent of \$20.10 per share. The redemption occurred at a discount to the carrying value of the preferred stock aggregating approximately \$7.0 million based on shares redeemed by the Company at the closing price at redemption.

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 Preferred Stock Redemption), each of which represented a 1/10 fractional interest of a share of the Company's 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 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.

Note 12: Comprehensive Income

Total comprehensive income was \$31.9 million and \$29.7 million for the three months ended June 30, 2003 and 2002, respectively, and \$67.3 million and \$52.8 million for the six months ended June 30, 2003 and 2002, 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 June 30, 2003 and December 31, 2002, accumulated other comprehensive loss reflected in the Company's equity on the consolidated balance sheet is comprised of the following (in thousands):

	As of June 30, 2003	As of December 31, 2002
Unrealized gains on available-for-sale securities	\$ 1,447	\$ 1,142
Unrealized loss on interest risk hedges	(879)	
Realized losses on interest risk hedges, net	(1,544)	(1,735)
Accumulated other comprehensive loss	\$ (976)	\$ (593)

Note 13: Commitments and Contingencies

General

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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.

Funding Commitments

In addition to the joint venture funding commitments described in Note 7 above, the Company also has the following contractual obligations as of June 30, 2003, none of which the Company believes will have a material adverse affect:

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 June 30, 2003, the Company had mortgage loans outstanding of approximately \$557.0 million and joint ventures in which the Company has a direct or indirect interest had mortgage loans outstanding of approximately \$184.4 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):

<u>Year</u>		
2003 (remaining six months)	\$	1,258
2004		1,356
2005		1,323
2006		833
2007		543
Thereafter		13,043

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 14: Subsequent Event

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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.