

NEW PLAN EXCEL REALTY TRUST INC  
Form 10-Q  
August 08, 2005

## 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, 2005**

**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.)

**420 Lexington Avenue, New York, New York 10170**  
(Address of Principal Executive Office) (Zip Code)

**212-869-3000**  
Registrant's Telephone Number

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

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, 2005 was 103,578,948.

---

**Forward-Looking Statements**

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

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

the competitive environment in which we operate

property ownership and 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 and changes in the capitalization rates with respect to the acquisition and disposition of properties

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

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

governmental approvals, actions and initiatives

environmental/safety requirements and costs

risks of real estate acquisition and development, including the failure of pending developments and redevelopments to be completed on time and within budget and the failure of newly acquired or developed properties to perform as expected

risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns

risks of joint venture activities

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

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

## NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2005 and 2004

(In thousands, except per share amounts)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|---|--------------------------------|-----------|------------------------------|------------|
|   | 2005<br>(Unaudited)            | 2004      | 2005<br>(Unaudited)          | 2004       |
| <b>Rental revenues:</b>   |                                |           |                              |            |
| Rental income   | \$ 101,518                     | \$ 95,084 | \$ 202,188                   | \$ 189,903 |
| Percentage rents  | 1,611                          | 1,354     | 4,242                        | 3,979      |
| Expense reimbursements  | 29,352                         | 24,402    | 55,221                       | 50,164     |
| Total rental revenues   | 132,481                        | 120,840   | 261,651                      | 244,046    |
| <b>Operating Expenses:</b>  |                                |           |                              |            |
| Operating costs   | 21,501                         | 19,258    | 43,917                       | 42,607     |
| Real estate taxes   | 18,665                         | 14,966    | 35,044                       | 29,909     |
| Depreciation and amortization   | 24,629                         | 21,403    | 49,908                       | 42,162     |
| Provision for doubtful accounts   | 2,311                          | 2,453     | 5,033                        | 4,305      |
| General and administrative  | 4,982                          | 5,173     | 9,977                        | 10,166     |
| Total operating expenses  | 72,088                         | 63,253    | 143,879                      | 129,149    |
| Income before real estate sales, impairment of real estate, minority interest and other income and expenses | 60,393                         | 57,587    | 117,772                      | 114,897    |
| <b>Other income and expenses:</b>   |                                |           |                              |            |
| Interest, dividend and other income   | 2,127                          | 1,849     | 4,662                        | 4,388      |
| Equity in income of unconsolidated ventures   | 441                            | 559       | 1,131                        | 789        |
| Interest expense  | (28,177)                       | (26,536)  | (55,509)                     | (52,937)   |
| Gain on sale of real estate   |                                |           |                              | 1,217      |
| Impairment of real estate   |                                | (43)      |                              | (43)       |
| Minority interest in income of consolidated partnership and joint ventures                                  | (1,134)                        | (476)     | (1,416)                      | (736)      |
| Income from continuing operations   | 33,650                         | 32,940    | 66,640                       | 67,575     |
| <b>Discontinued operations:</b>   |                                |           |                              |            |
| Income (loss) from discontinued operations (Note 5)   | 7,047                          | (24)      | 12,743                       | 2,738      |
| Net income  | \$ 40,697                      | \$ 32,916 | \$ 79,383                    | \$ 70,313  |
| Preferred dividends   | (5,471)                        | (5,275)   | (10,938)                     | (10,550)   |
| Net income available to common stock basic  | 35,226                         | 27,641    | 68,445                       | 59,763     |
| Minority interest in income of consolidated partnership   | 251                            | 286       | 533                          | 546        |
| Net income available to common stock diluted  | \$ 35,477                      | \$ 27,927 | \$ 68,978                    | \$ 60,309  |
| <b>Basic earnings per common share:</b>   |                                |           |                              |            |
| Income from continuing operations   | \$ 0.27                        | \$ 0.28   | \$ 0.54                      | \$ 0.57    |

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|   |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|
| Discontinued operations                                 |    | 0.07    |    | 0.12    |    | 0.03    |
| Basic earnings per share                                | \$ | 0.34    | \$ | 0.28    | \$ | 0.66    |
|   |    |         |    |         |    | \$      |
|   |    |         |    |         |    | 0.60    |
| Diluted earnings per common share:                      |    |         |    |         |    |         |
| Income from continuing operations                       | \$ | 0.27    | \$ | 0.27    | \$ | 0.53    |
| Discontinued operations                                 |    | 0.06    |    |         |    | 0.12    |
| Diluted earnings per share                              | \$ | 0.33    | \$ | 0.27    | \$ | 0.65    |
|   |    |         |    |         |    | \$      |
|   |    |         |    |         |    | 0.59    |
| Average shares outstanding basic                        |    | 103,164 |    | 100,159 |    | 103,002 |
| Average shares outstanding diluted                      |    | 106,685 |    | 102,272 |    | 106,404 |
|   |    |         |    |         |    | 99,789  |
|   |    |         |    |         |    | 102,142 |
| Dividends per common share                              | \$ | 0.4125  | \$ | 0.4125  | \$ | 0.4125  |
|   |    |         |    |         |    | \$      |
|   |    |         |    |         |    | 0.4125  |
| Other comprehensive income:                             |    |         |    |         |    |         |
| Net income  | \$ | 40,697  | \$ | 32,916  | \$ | 79,383  |
| Unrealized gain (loss) on available-for-sale securities |    | 564     |    | (282)   |    | 325     |
| Unrealized gain on deferred compensation                |    | 24      |    |         |    | 24      |
| Realized (loss) gain on interest risk hedges, net       |    | (157)   |    | 41      |    | (2,168) |
| Unrealized (loss) gain on interest risk hedges, net     |    | (5,475) |    | 4,048   |    | (791)   |
| Comprehensive income                                    | \$ | 35,653  | \$ | 36,723  | \$ | 76,773  |
|   |    |         |    |         |    | \$      |
|   |    |         |    |         |    | 71,784  |

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, 2005 and December 31, 2004

(In thousands, except par value amounts)

|  | June 30, 2005 | (Unaudited) | December 31, 2004 |
|--|---------------|-------------|-------------------|
| <b>ASSETS</b>  |               |             |                   |
| Real estate:   |               |             |                   |
| Land   | \$ 891,505    |             | \$ 897,411        |
| Building and improvements  | 3,229,987     |             | 3,090,779         |
| Accumulated depreciation and amortization  | (452,924)     |             | (428,427)         |
| Net real estate  | 3,668,568     |             | 3,559,763         |
| Real estate held for sale  | 24,178        |             | 20,835            |
| Cash and cash equivalents  | 8,361         |             | 7,292             |
| Restricted cash  | 18,671        |             | 22,379            |
| Marketable securities  | 3,759         |             | 3,433             |
| Receivables:   |               |             |                   |
| Trade, net of allowance for doubtful accounts of \$25,610 and \$24,239 at June 30, 2005 and December 31, 2004, respectively  | 27,750        |             | 31,043            |
| Deferred rent, net of allowance of \$2,907 and \$3,548 at June 30, 2005 and December 31, 2004, respectively  | 35,415        |             | 31,931            |
| Other, net   | 18,593        |             | 18,627            |
| Mortgages and notes receivable   | 854           |             | 8,881             |
| Prepaid expenses and deferred charges  | 53,457        |             | 47,646            |
| Investments in/advances to unconsolidated ventures   | 39,306        |             | 31,888            |
| Intangible assets  | 36,635        |             | 32,085            |
| Other assets   | 15,355        |             | 15,939            |
| Total assets   | \$ 3,950,902  |             | \$ 3,831,742      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |               |             |                   |
| Liabilities:   |               |             |                   |
| Mortgages payable, including unamortized premium of \$19,816 and \$20,400 at June 30, 2005 and December 31, 2004, respectively   | \$ 558,382    |             | \$ 551,522        |
| Notes payable, net of unamortized discount of \$4,361 and \$4,723 at June 30, 2005 and December 31, 2004, respectively   | 971,137       |             | 970,563           |
| Credit facilities  | 535,000       |             | 446,000           |
| Capital leases   | 28,061        |             | 28,234            |
| Dividends payable  | 47,919        |             | 47,698            |
| Other liabilities  | 121,748       |             | 105,269           |
| Tenant security deposits   | 12,014        |             | 11,511            |
| Total liabilities  | 2,274,261     |             | 2,160,797         |
| Minority interest in consolidated partnership and joint ventures   | 45,017        |             | 30,784            |
| Commitments and contingencies  |               |             |                   |
| Stockholders equity:   |               |             |                   |
| Preferred stock, \$.01 par value, 25,000 shares authorized; 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, 2005 | 10            |             | 10                |

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

and December 31, 2004; Series E: 8,000 depositary shares, each representing 1/10 of one share of 7.625% Series E Cumulative Redeemable Preferred, 800 shares outstanding at June 30, 2005 and December 31, 2004

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Common stock, \$.01 par value, 250,000 shares authorized; 103,487 and 102,845 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively |    | 1,034     |    | 1,028     |
| Additional paid-in capital   |    | 2,016,875 |    | 2,005,977 |
| Accumulated other comprehensive loss   |    | (7,752)   |    | (5,031)   |
| Accumulated distribution in excess of net income   |    | (378,543) |    | (361,823) |
| Total stockholders' equity   |    | 1,631,624 |    | 1,640,161 |
| Total liabilities and stockholders' equity   | \$ | 3,950,902 | \$ | 3,831,742 |

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, 2005 and 2004

(Unaudited, in thousands)

|   | June 30, 2005 | June 30, 2004 |
|---|---------------|---------------|
| Cash flows from operating activities:                                   |               |               |
| Net income  | \$ 79,383     | \$ 70,313     |
| Adjustments to reconcile net income to net cash provided by operations: |               |               |
| Depreciation and amortization   | 51,338        | 43,916        |
| Amortization of net premium/discount on mortgages and notes payable     | (1,644)       | (1,388)       |
| Amortization of deferred debt and loan acquisition costs                | 1,224         | 1,738         |
| Amortization of stock options   | 891           | 485           |
| Interest on swaps   | 197           |               |
| Gain on sale of real estate, net  |               | (1,217)       |
| Gain on sale of discontinued operations, net                            | (11,696)      | (445)         |
| Minority interest in income of consolidated partnership                 | 1,416         | 736           |
| Impairment of real estate assets  |               | 43            |
| Equity in income of unconsolidated ventures                             | (1,131)       | (789)         |
| Changes in operating assets and liabilities, net:                       |               |               |
| Change in restricted cash   | 3,708         | 6,997         |
| Change in trade receivables   | 3,303         | 2,718         |
| Change in deferred rent receivables                                     | (3,472)       | (3,174)       |
| Change in other receivables   | 33            | (5,159)       |
| Change in other liabilities   | 7,112         | (975)         |
| Change in tenant security deposits                                      | 468           | 146           |
| Change in sundry assets and liabilities                                 | (6,718)       | (4,798)       |
| Net cash provided by operating activities                               | 124,412       | 109,147       |
| Cash flows from investing activities:                                   |               |               |
| Real estate acquisitions and building improvements                      | (71,343)      | (52,186)      |
| Acquisition, net of cash and restricted cash received                   | (56,129)      | (116,350)     |
| Proceeds from real estate sales, net                                    | 17,503        | 30,207        |
| Advances for mortgage notes receivable, net                             |               | (8,331)       |
| Repayments of mortgage notes receivable                                 | 10,650        | 26,525        |
| Leasing commissions paid  | (6,070)       | (6,053)       |
| Cash from joint venture consolidation (Note 2)                          | 54            | 665           |
| Cash paid for joint venture investment                                  | (5,441)       | (9,748)       |
| Proceeds from sale of joint venture interest                            | 8,160         | 3,870         |
| Capital contributions to joint ventures                                 | (6,300)       | (1,557)       |
| Distributions from joint ventures                                       | 6,208         | 7,829         |
| Net cash used in investing activities                                   | (102,708)     | (125,129)     |
| Cash flows from financing activities:                                   |               |               |
| Principal payments of mortgages and notes payable                       | (20,526)      | (33,837)      |
| Proceeds from public debt offering                                      | 99,930        | 149,114       |
| Repayment of public debt  | (100,000)     |               |
| Cash received from rate lock swap                                       |               | 775           |
| Cash paid for settlement of a reverse arrears swap                      | (2,476)       | (1,275)       |
| Proceeds from credit facility borrowing                                 | 295,000       | 260,000       |

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Repayment of credit facility                                      | (206,000) | (270,000) |
| Financing fees  | (2,024)   | (4,038)   |
| Distributions paid to minority partners                           | (1,483)   | (2,698)   |
| Dividends paid  | (95,496)  | (89,520)  |
| Proceeds from exercise of stock options                           | 7,347     | 11,279    |
| Repayment of loans receivable for the purchase of common stock    | 118       | 255       |
| Proceeds from dividend reinvestment plan                          | 4,975     | 3,123     |
| Net cash (used in) provided by financing activities               | (20,635)  | 23,178    |
| Net increase in cash and cash equivalents                         | 1,069     | 7,196     |
| Cash and cash equivalents at beginning of period                  | 7,292     | 5,328     |
| Cash and cash equivalents at end of period                        | \$ 8,361  | \$ 12,524 |
| Supplemental Cash Flow Disclosure, including Non-Cash Activities: |           |           |
| Cash paid for interest  | \$ 59,011 | \$ 55,312 |
| Capitalized interest  | 3,412     | 3,016     |
| State and local taxes paid  | (140)     | 266       |
| Mortgages assumed in acquisition                                  | 27,797    | 30,275    |
| Partnership units issued in acquisition                           | 14,547    | 11,223    |
| Satisfaction of notes receivable                                  |           | 15,091    |

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. (together with its subsidiaries, the Company) is operated as a self-administered, self-managed real estate investment trust (REIT). The principal business of the Company is the ownership and management of community and neighborhood shopping centers throughout the United States.

**Note 2: Summary of Significant Accounting Policies**

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Excel Realty Partners, L.P. (ERP), a Delaware limited partnership (Note 9), and certain of the Company's joint ventures, in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). All significant intercompany transactions and balances have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules of the SEC and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (GAAP). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income and comprehensive income for the three and six months ended June 30, 2005 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

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

stockholders by the weighted average number of shares of common stock outstanding for the period. Net earnings per share of common stock assuming dilution ( diluted EPS ) is computed by giving effect to all dilutive potential shares of common stock that were outstanding during the period. Dilutive potential shares of common stock consist of the incremental shares of common stock issuable upon (a) the conversion of (i) preferred stock (using the if converted method), (ii) ERP limited partnership units, (iii) convertible senior notes, (iv) restricted stock grants and (v) contingent compensation awards and (b) the exercise of in-the-money stock options.

### Cash Equivalents

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

### Restricted Cash

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

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of \$25.6 million and \$24.2 million as of June 30, 2005 and December 31, 2004, respectively. The Company makes estimates of the uncollectability of its accounts receivable related to base rents, expense reimbursements and other revenues. The Company analyzes accounts receivable and historical bad debt levels, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

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. Land, buildings and building and tenant improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction costs, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development are capitalized. The Company ceases capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

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

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

Business Combinations

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

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

The total amount of other intangible assets allocated to in-place lease values and tenant relationship intangible values is based on management's evaluation of the specific characteristics of each lease and the Company's overall relationship with each tenant. Factors considered in the allocation of these values include, among other factors, the nature of the existing relationship with the tenant, the tenant's credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management will also consider information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management will estimate costs required to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of a property. Independent appraisals and/or management's estimates will be used to determine these values.

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

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

#### Long-Lived Assets

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

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

#### Employee Loans

Prior to 2001, the Company had made loans to officers and employees primarily for the purpose of purchasing the Company's common stock. These loans are demand and term notes bearing interest at rates ranging from 5.0% to 6.0%. Interest is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders' equity. At June 30, 2005 and December 31, 2004, the Company had aggregate loans to employees of approximately \$0.6 million and \$0.8 million, respectively.

#### Investments in /Advances to Unconsolidated Ventures

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

#### Deferred Leasing and Loan Origination Costs

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

The Company capitalizes internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Please refer to the following table for additional information regarding the capitalization of internal leasing costs (dollars in thousands).

|                              |    |        |
|------------------------------|----|--------|
| Balance at December 31, 2003 | \$ | 8,870  |
| Costs capitalized            |    | 2,402  |
| Amortization                 |    | (395)  |
| Balance at March 31, 2004    |    | 10,877 |
| Costs capitalized            |    | 2,359  |
| Amortization                 |    | (687)  |
| Balance June 30, 2004        | \$ | 12,549 |
| Balance at December 31, 2004 | \$ | 15,392 |
| Costs capitalized            |    | 2,073  |
| Amortization                 |    | (706)  |
| Balance at March 31, 2005    |    | 16,759 |
| Costs capitalized            |    | 1,999  |
| Amortization                 |    | (768)  |
| Balance June 30, 2005        | \$ | 17,990 |

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 Sheets 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

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

Beginning in May 2003, the Company implemented a self-insured health plan for all of its employees. In order to limit its exposure under the plan, the Company has purchased stop-loss insurance, which will reimburse the Company for individual claims in excess of \$0.1 million annually, or aggregate claims in excess of \$1.0 million annually. Self-insurance losses are accrued based on the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions adhered to in the insurance industry. The liability for self-insured losses is included in accrued expenses and was approximately \$0.7 million at June 30, 2005 and December 31, 2004.

### Revenue Recognition

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

### Income from Discontinued Operations

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

### Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ). In order to maintain its qualification as a REIT, 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 intends 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 general and administrative expenses in the Company's Consolidated Statements of Income and Comprehensive Income.

The Company may elect to treat one or more of its subsidiaries as a taxable REIT subsidiary ( TRS ). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRSs. At June 30, 2005, the Company's TRSs had a tax net operating loss ( NOL ) carryforward of approximately \$15.3 million, expiring from 2015 to 2018.

### Segment Information

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

The principal business of the Company is the ownership and management of community and neighborhood shopping centers. The Company does not distinguish or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single reportable segment for disclosure purposes in accordance with GAAP. Further, all of the Company's operations and assets are within the United States and no tenant comprises more than 5% of revenue.

### 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 the current period presentation.

#### Recently Issued Accounting Standards

In May 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3 ( SFAS No. 154 ). SFAS No. 154 replaces Accounting Principles Board ( APB ) Opinion No. 20, *Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance where the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, but early adoption is permitted. The adoption of SFAS No. 154 is not expected to have a material impact on the consolidated financial statements of the Company.

In December 2004, the FASB issued Statement 123(R), *Share-Based Payment* ( SFAS No. 123(R) ). SFAS No. 123(R) amends Statement 123, *Accounting for Stock-Based Compensation* ( SFAS No. 123 ), and APB Opinion No. 25, *Accounting for Stock Issued to Employees* ( Opinion 25 ). SFAS No. 123(R) also establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date, and to recognize such cost over the period during which the employee is required to provide such services. As modified on April 14, 2005, SFAS No. 123(R) is effective as of the first annual reporting period that begins after June 15, 2005. The adoption of SFAS No. 123(R) is not expected to have a material impact on the consolidated financial statements of the Company.

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

#### Acquisitions

During the six months ended June 30, 2005, the Company acquired three shopping centers (Brunswick Town Center, Hillcrest Shopping Center and West Ridge Shopping Center), a vacant building with 2.5 acres of land immediately adjacent to Midway Crossing (a shopping center owned by the Company), the remaining 90% interest in Marketplace at Wycliffe, a shopping center in which the Company owned the other 10% interest, and the remaining 90% interest in Mableton Walk, a shopping center in which the Company owned the other 10% interest. Please refer to the following table for additional details (dollars in millions).

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

| Property Name               | Location        | Acquisition Date | Gross Leasable Area | Purchase Price Components |           |              |         |
|-----------------------------|-----------------|------------------|---------------------|---------------------------|-----------|--------------|---------|
|                             |                 |                  |                     | Purchase Price            | ERP Units | Assumed Debt | Cash    |
| Building at Midway Crossing | Elyria, OH      | 01/13/05         | 20,338(1)           | \$ 1.1                    |           |              | \$ 1.1  |
| Brunswick Town Center       | Brunswick, OH   | 01/21/05         | 122,989             | \$ 16.4                   |           |              | \$ 16.4 |
| Hillcrest Shopping Center   | Spartanburg, SC | 02/16/05         | 343,914             | \$ 35.5                   | \$ 14.5   | \$ 16.8      | \$ 4.2  |
| West Ridge Shopping Center  | Westland, MI    | 03/17/05         | 163,131             | \$ 16.6                   |           | \$ 11.0      | \$ 5.6  |
| Marketplace at Wycliffe (2) | Lake Worth, FL  | 06/01/05         | 133,520             | \$ 35.7                   |           |              | \$ 35.7 |
| Mableton Walk (2)           | Mableton, GA    | 06/01/05         | 105,742             |                           |           |              |         |
| <b>Total</b>                |                 |                  |                     | \$ 105.3                  | \$ 14.5   | \$ 27.8      | \$ 63.0 |

(1) Also includes 2.5 acres of land.

(2) Property acquired as a component of a multi-property transaction. Purchase price and cash listed for Marketplace at Wycliffe represent the combined amounts for the acquisition of 100% interests in both properties.

In connection with the above acquisitions, and in compliance with the Company's business combination policy, the Company allocated approximately \$6.2 million to leases acquired. Of this amount, approximately \$5.4 million was attributable to the value of in-place leases at the time of acquisition, legal fees and leasing commissions,

and approximately \$1.1 million, net was attributable to above/(below) market lease value. The \$6.2 million, net of accumulated amortization of \$0.3 million, was recorded as either intangible assets or other liabilities on the Company's consolidated balance sheets.

During fiscal 2004, the Company acquired 11 shopping centers (New Britain Village Square, Elk Grove Town Center, Villa Monaco, Florence Square, Stockbridge Village, Starlite Plaza, Village Center, Annex of Arlington, Marketplace, Silver Pointe, and The Shoppes at Southside), 11 acres of unimproved land known as Unity Plaza, the remaining 50% interest in Clearwater Mall, a shopping center in which the Company owned the other 50% interest, and the remaining 50% interest in The Market at Preston Ridge, a shopping center in which the Company owned the other 50% interest. Please refer to the following table for additional details (dollars in millions).

| Property Name                 | Location              | Acquisition Date | Gross Leasable Area | Purchase Price | Purchase Price Components |              |          |
|-------------------------------|-----------------------|------------------|---------------------|----------------|---------------------------|--------------|----------|
|                               |                       |                  |                     |                | ERP Units                 | Assumed Debt | Cash     |
| New Britain Village Square    | Chalfont, PA          | 01/09/04         | 143,716             | \$ 23.4        | \$ 11.2                   | \$ 12.2(1)   |          |
| Clearwater Mall *             | Clearwater, FL        | 01/30/04         | 285,519             | \$ 30.0        |                           |              | \$ 30.0  |
| Elk Grove Town Center         | Elk Grove Village, IL | 01/30/04         | 131,849             | \$ 21.0        |                           | \$ 14.5      | \$ 6.5   |
| Villa Monaco                  | Denver, CO            | 02/19/04         | 122,213             | \$ 12.0        |                           |              | \$ 12.0  |
| Florence Square               | Florence, KY          | 03/17/04         | 361,251             | \$ 39.5        |                           | \$ 15.8      | \$ 23.7  |
| Unity Plaza                   | East Fishkill, NY     | 04/28/04         | 11 acres            | \$ 6.0         |                           |              | \$ 6.0   |
| Stockbridge Village           | Stockbridge, GA       | 04/29/04         | 188,203             | \$ 23.8        |                           |              | \$ 23.8  |
| Starlite Plaza                | Sylvania, OH          | 07/22/04         | 222,450             | \$ 16.8        |                           |              | \$ 16.8  |
| Village Center                | Smithtown, NY         | 08/19/04         | 97,401              | \$ 16.8        |                           | \$ 4.4       | \$ 12.4  |
| Annex of Arlington            | Arlington Heights, IL | 08/26/04         | 197,328             | \$ 27.2        |                           | \$ 17.9      | \$ 9.3   |
| Marketplace                   | Tulsa, OK             | 09/01/04         | 186,851             | \$ 18.0        | \$ 8.8                    | \$ 9.2       |          |
| The Market at Preston Ridge * | Frisco, TX            | 09/01/04         | 50,326              | \$ 5.2         |                           |              | \$ 5.2   |
| Silver Pointe                 | Fenton, MI            | 11/23/04         | 86,141              | \$ 10.2        |                           | \$ 7.2       | \$ 3.0   |
| The Shoppes at Southside      | Jacksonville, FL      | 12/10/04         | 109,113             | \$ 25.0        |                           |              | \$ 25.0  |
|                               | <b>Total</b>          |                  |                     | \$ 274.9       | \$ 20.0                   | \$ 81.2      | \$ 173.7 |

\* The Company acquired the remaining 50% interest in the property in which the Company owned the other 50% interest.

(1) Represents the assumption of a mortgage loan previously made by the Company to the seller.

In connection with the above acquisitions, and in compliance with the Company's business combination policy, the Company allocated approximately \$35.6 million to leases acquired. Of this amount, approximately \$35.3 million was attributable to the value of in-place leases at the time of acquisition, legal fees and leasing commissions, and approximately \$0.3 million was attributable to above market lease value. The \$35.6 million, net of accumulated amortization of \$3.5 million, was recorded in intangible assets on the Company's consolidated balance sheets.

Dispositions

During the six months ended June 30, 2005, the Company sold four properties and two land parcels for aggregate gross proceeds of approximately \$18.1 million. In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5).

During 2004, the Company sold 14 properties, two outparcels, one land parcel and 90% of its ownership interest in Villa Monaco for aggregate gross proceeds of approximately \$57.9 million, including approximately \$8.5 million represented by a purchase money note issued in connection with the sale of Factory Merchants Barstow (the purchase money note was repaid in full in early 2005). In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5).



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

As of June 30, 2005, four shopping centers and one land parcel were classified as Real estate held for sale. These properties are located in four states and have an aggregate gross leasable area of approximately 0.5 million square feet. Such properties had an aggregate book value of approximately \$24.2 million as of June 30, 2005. 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 as income from discontinued operations (Note 5).

As of December 31, 2004, four retail properties and one land parcel were classified as Real estate held for sale. These properties are located in five states and have an aggregate gross leasable area of approximately 0.4 million square feet. Such properties had an aggregate book value of approximately \$20.8 million, net of accumulated depreciation of approximately \$3.2 million as of December 31, 2004. 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 as income from discontinued operations (Note 5).

**Note 5: Income (Loss) from Discontinued Operations**

The following is a summary of income from discontinued operations for the three and six months ended June 30, 2005 and 2004 (dollars in thousands):

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2005                           | 2004     | 2005                         | 2004     |
| Total revenue   |                                |          |                              |          |
| Real estate held for sale   | \$ 856                         | \$ 970   | \$ 1,830                     | \$ 1,831 |
| Other discontinued operations   | 374                            | 2,145    | 831                          | 4,582    |
| Total revenue   | \$ 1,230                       | \$ 3,115 | \$ 2,661                     | \$ 6,413 |
| Operating costs   |                                |          |                              |          |
| Real estate held for sale   | (167)                          | (143)    | (346)                        | (334)    |
| Other discontinued operations   | (99)                           | (666)    | (256)                        | (1,459)  |
| Real estate taxes   |                                |          |                              |          |
| Real estate held for sale   | (134)                          | (72)     | (240)                        | (160)    |
| Other discontinued operations   | (45)                           | (315)    | (159)                        | (480)    |
| Interest expense  |                                |          |                              |          |
| Real estate held for sale   |                                |          |                              |          |
| Other discontinued operations   |                                | (58)     | (5)                          | (116)    |
| Depreciation and amortization   |                                |          |                              |          |
| Real estate held for sale   | (195)                          | (159)    | (542)                        | (320)    |
| Other discontinued operations   | (43)                           | (331)    | (104)                        | (675)    |
| Provision for doubtful accounts   |                                |          |                              |          |
| Real estate held for sale   | (35)                           | (57)     | (61)                         | (46)     |
| Other discontinued operations   | (158)                          | (368)    | 98                           | (530)    |
| Total operating costs   | (876)                          | (2,169)  | (1,615)                      | (4,120)  |
| Income from discontinued operations before<br>impairment and gain on sale | 354                            | 946      | 1,046                        | 2,293    |
| Gain (loss) on sale of other discontinued<br>operations (1)               | 6,693                          | (970)    | 11,697                       | 445      |
| Income (loss) from discontinued operations                                | \$ 7,047                       | \$ (24)  | \$ 12,743                    | \$ 2,738 |

(1) For the six months ended June 30, 2005, balance includes approximately \$3.3 million attributable to the gain on sale of Rodney Village, a property formerly owned by Benbrooke Ventures, a joint venture in which the Company previously held a 50% interest.

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

At June 30, 2005, the Company had investments in nine unconsolidated joint ventures: (1) Arapahoe Crossings, L.P., (2) BPR Land Partnership, L.P., (3) BPR South, L.P., (4) BPR Shopping Center, L.P., (5) CA New Plan Acquisition Fund, LLC, (6) CA New Plan Venture Direct Investment Fund, LLC, (7) CA New Plan Venture Fund, LLC, (8) NP / I&G Institutional Retail Company, LLC, and (9) Westgate Mall, LLC. The Company accounts for these investments using the equity method. The following table summarizes these joint venture projects as of June 30, 2005 and December 31, 2004 (dollars in thousands):

|   | City            | State | JV Partner                                    | Percent Ownership | Investments in/Advances to Unconsolidated Ventures |                   |
|---|-----------------|-------|---|-------------------|--|-------------------|
|   |                 |       |   |                   | June 30, 2005                                      | December 31, 2004 |
| <b><u>Arapahoe Crossings, L.P. (1)</u></b>                    |                 |       |   |                   |  |                   |
| Arapahoe Crossings  | Aurora          | CO    | Foreign Investor                              | 30%               | \$ 6,618   | \$ 6,718          |
| <b><u>BPR Land Partnership, L.P. (2)</u></b>                  |                 |       |   |                   |  |                   |
| Undeveloped land parcels                                      | Frisco          | TX    | George Allen/Milton Schaffer                  | 50%               | \$ 1,131   | \$ 1,993          |
| <b><u>BPR South, L.P. (2)</u></b>                             |                 |       |   |                   |  |                   |
| Undeveloped land parcels                                      | Frisco          | TX    | George Allen/Milton Schaffer                  | 50%               | \$ 863   | N/A               |
| <b><u>BPR Shopping Center, L.P. (1)</u></b>                   |                 |       |   |                   |  |                   |
| The Centre at Preston Ridge                                   | Frisco          | TX    | Foreign Investor/George Allen/Milton Schaffer | 25%               | \$ 3,683   | \$ 3,683          |
| <b><u>CA New Plan Acquisition Fund, LLC (3), (4)</u></b>      |                 |       |   |                   |  |                   |
|   |                 |       | Major U.S. Pension Fund                       | 10%               | \$ 25  | N/A               |
| <b><u>CA New Plan Venture Direct Investment Fund, LLC</u></b> |                 |       |   |                   |  |                   |
| Sarasota Village  | Sarasota        | FL    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
| Atlantic Plaza  | Satellite Beach | FL    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
| Harwood Central Village                                       | Bedford         | TX    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
| Spring Valley Crossing  | Dallas          | TX    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
| Odessa-Winwood Town Center                                    | Odessa          | TX    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
| Windvale  | The Woodlands   | TX    | Major U.S. Pension Fund                       | 10%               | *  | N/A               |
|   |                 |       |   |                   | \$ 882   | N/A               |
| <b><u>CA New Plan Venture Fund, LLC (5)</u></b>               |                 |       |   |                   |  |                   |
| <b><u>Operating Properties</u></b>                            |                 |       |   |                   |  |                   |
| Villa Monaco  | Denver          | CO    | Major U.S. Pension Fund                       | 10%               | *  | *                 |
| Ventura Downs   | Kissimmee       | FL    | Major U.S. Pension Fund                       | 10%               | *  | *                 |
| Marketplace at Wycliff  | Lake Worth      | FL    | Major U.S. Pension Fund                       | 10%               | N/A  | *                 |
| Shoppes of Victoria Square                                    | Port St. Lucie  | FL    | Major U.S. Pension Fund                       | 10%               | *  | *                 |
| Sarasota Village  | Sarasota        | FL    |   | 10%               | N/A  | *                 |

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|   |                 |    |   |     |        |           |
|---|-----------------|----|---|-----|--------|-----------|
| Atlantic Plaza  | Satellite Beach | FL | Major U.S. Pension Fund   | 10% | N/A    | *         |
| Mableton Walk   | Mableton        | GA | Major U.S. Pension Fund   | 10% | N/A    | *         |
| Marrero Shopping Center                                   | Marrero         | LA | Major U.S. Pension Fund   | 10% | *      | *         |
| Clinton Crossings   | Clinton         | 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% | N/A    | *         |
| Spring Valley Crossing                                    | Dallas          | TX | Major U.S. Pension Fund   | 10% | N/A    | *         |
| Odessa-Winwood Town Center                                | Odessa          | TX | Major U.S. Pension Fund   | 10% | N/A    | *         |
| Ridglea Plaza   | Fort Worth      | TX | Major U.S. Pension Fund   | 10% | *      | *         |
| Windvale  | The Woodlands   | TX | Major U.S. Pension Fund   | 10% | N/A    | *         |
| <b>Redevelopment Properties</b>                           |                 |    |   |     |        |           |
| Stone Mountain Festival                                   | Stone Mountain  | GA | Major U.S. Pension Fund   | 10% | *      | *         |
|   |                 |    |   | \$  | 4,759  | \$ 6,963  |
| <b>NP/I&amp;G Institutional Retail Company, LLC (5)</b>   |                 |    |   |     |        |           |
| New London Mall   | New London      | CT | JPMorgan Fleming Asset Management                               | 20% | *      | N/A       |
| Riverplace Shopping Center                                | Jacksonville    | FL | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| Conyers Crossroads  | Conyers         | GA | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| Village Shoppes of Flowery Branch                         | Flowery Branch  | GA | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| Village Shoppes of East Cherokee                          | Woodstock       | GA | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| DSW Plaza at Lake Grove                                   | Lake Grove      | NY | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| Skytop Pavilion   | Cincinnati      | OH | JPMorgan Fleming Asset Management                               | 20% | *      | *         |
| Quail Springs Marketplace                                 | Oklahoma City   | OK | JPMorgan Fleming Asset Management                               | 20% | *      | N/A       |
| Westpark Shopping Center                                  | Richmond        | VA | JPMorgan Fleming Asset Management                               | 20% | *      | N/A       |
|   |                 |    |   | \$  | 20,517 | \$ 12,531 |
| <b>Westgate Mall, LLC (6)</b>                             |                 |    |   |     |        |           |
| Westgate Mall   | Fairview Park   | OH | Transwestern Investment Company/<br>The Richard E. Jacobs Group | 10% | \$ 828 | N/A       |
| <b>Investments in/Advances to Unconsolidated Ventures</b> |                 |    |   | \$  | 39,306 | \$ 31,888 |

- 
- \* Multiple properties held in a single joint venture investment.
- (1) The Company receives increased participation after a 10% return.
- (2) The Company receives a 10% preferred return on its investment.
- (3) As of June 30, 2005, there were no properties owned by the joint venture.
- (4) The Company receives increased participation after a 10% IRR.
- (5) The Company receives increased participation after a 12% IRR.
- (6) The Company receives increased participation after a 13% return.

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

**Condensed Combined Balance Sheets**

|  | June 30, 2005     | December 31, 2004 |
|--|-------------------|-------------------|
| Cash and cash equivalents                                    | \$ 17,815         | \$ 10,848         |
| Receivables  | 10,336            | 8,814             |
| Property and equipment, net of accumulated depreciation      | 609,062           | 501,517           |
| Other assets, net of accumulated amortization                | 23,532            | 18,171            |
| <b>Total Assets</b>  | <b>\$ 660,745</b> | <b>\$ 539,350</b> |
| Long-term debt   | \$ 444,906        | \$ 364,719        |
| Accrued interest   | 2,064             | 1,700             |
| Other liabilities  | 12,992            | 8,047             |
| <b>Total liabilities</b>                                     | <b>459,962</b>    | <b>374,466</b>    |
| <b>Total partners' capital</b>                               | <b>200,783</b>    | <b>164,884</b>    |
| <b>Total liabilities and partners' capital</b>               | <b>\$ 660,745</b> | <b>\$ 539,350</b> |
| Company's investments in/advances to unconsolidated ventures | \$ 39,306         | \$ 31,888         |

## Condensed Combined Statements of Income

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2005                           | 2004      | 2005                         | 2004      |
| Rental revenues                         | \$ 19,159                      | \$ 13,489 | \$ 38,739                    | \$ 27,640 |
| Operating expenses                      | (5,784)                        | (3,064)   | (11,760)                     | (8,186)   |
| Interest expense                        | (5,759)                        | (3,843)   | (10,988)                     | (7,285)   |
| Other expense, net                      | (4,313)                        | (2,505)   | (8,917)                      | (4,014)   |
| Gain (loss) on sale of real estate, net | 9,227                          | 35        | 9,227                        | (922)     |
| Net income                              | \$ 12,530                      | \$ 4,112  | \$ 16,301                    | \$ 7,233  |
| Company's share of net income (1)       | \$ 442                         | \$ 559    | \$ 1,131                     | \$ 789    |

(1) Includes preferred returns of \$0.1 million and \$0.3 million for the three and six months ended June 30, 2004, respectively.

The following is a brief summary of the unconsolidated joint venture obligations that the Company had as of June 30, 2005.

*Arapahoe Crossings, L.P.* The Company, together with a U.S. partnership comprised substantially of foreign investors, has an interest in a joint venture which owns Arapahoe Crossings, a community shopping center located in Aurora, Colorado. Under the terms of this joint venture, the Company has a 30% interest and is responsible for contributing 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 \$48.9 million as of June 30, 2005.

*BPR Land Partnership, L.P.* The Company has a 50% investment in a joint venture that owns approximately 30.1 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of June 30, 2005.

*BPR South, L.P.* The Company has a 50% investment in a joint venture that owns approximately 8.4 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of June 30, 2005.

*BPR Shopping Center, L.P.* The Company has a 25% interest in a venture that owns The Centre at Preston Ridge, a community shopping center located in Frisco, Texas. Under the terms of this joint venture, the Company has

agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$68.9 million as of June 30, 2005.

*CA New Plan Acquisition Fund, LLC.* This joint venture was created on June 1, 2005, in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below). Under the terms of the 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 \$4.2 million, of which approximately \$25,000 had been contributed by the Company as of June 30, 2005. The Company anticipates contributing the remaining \$4.2 million during the remainder of 2005 and through 2007. As of June 30, 2005, the joint venture did not own any properties and had no loans outstanding.

*CA New Plan Venture Direct Investment Fund, LLC.* This joint venture was created on June 1, 2005, in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below). Under the terms of the 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 \$0.4 million, of which approximately \$0.1 million had been contributed by the Company as of June 30, 2005. The Company anticipates contributing the remaining \$0.3 million during the remainder of 2005 and throughout 2006. The joint venture owned six retail properties as of June 30, 2005. The joint venture had loans outstanding of approximately \$54.2 million as of June 30, 2005.

*CA New Plan Venture Fund, LLC.* On June 1, 2005, this joint venture was restructured to create two additional joint ventures, CA New Plan Acquisition Fund, LLC, and CA New Plan Venture Direct Investment Fund, LLC. As a result of the restructuring, six stabilized assets were transferred from CA New Plan Venture Fund, LLC to CA New Plan Venture Direct Investment Fund, LLC, and two assets were sold, resulting in the joint venture owning eight operating retail properties and one retail property under redevelopment as of June 30, 2005. Under the terms of the restructured joint venture, the Company continues to have 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 \$0.9 million, of which approximately \$0.4 million had been contributed by the Company as of June 30, 2005. The Company anticipates contributing the remaining \$0.5 million during the remainder of 2005. The joint venture had loans outstanding of approximately \$66.8 million as of June 30, 2005.

*NP / I&G Institutional Retail Company, LLC.* In November 2003, the Company formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned nine retail properties as of June 30, 2005. Under the terms of this joint venture, the Company has a 20% interest in the venture and is responsible for contributing its pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$30.0 million, of which approximately \$20.5 million had been contributed by the Company as of June 30, 2005. The Company anticipates contributing the remaining \$9.5 million during the remainder of 2005. The joint venture had loans outstanding of approximately \$185.3 million as of June 30, 2005.

*Westgate Mall, LLC.* The Company, together with Transwestern Investment Company and The Richard E. Jacobs Group, has an interest in a joint venture that was formed for the specific purpose of acquiring and redeveloping Westgate Mall, an enclosed mall located on 55 acres of land in Fairview Park, Ohio. The joint venture plans to redevelop the mall into a large community shopping center. 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; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$20.8 million as of June 30, 2005.



**Note 7: Debt Obligations**

As of June 30, 2005 and December 31, 2004, the Company had debt obligations under various arrangements with financial institutions as follows (dollars in thousands):

|  | Maximum<br>Amount<br>Available | Carrying Value as of |                      | Stated<br>Interest<br>Rates | Scheduled<br>Maturity<br>Date |
|--|--------------------------------|----------------------|----------------------|-----------------------------|-------------------------------|
|  |                                | June 30,<br>2005     | December 31,<br>2004 |                             |                               |
| <b>CREDIT FACILITIES</b>               |                                |                      |                      |                             |                               |
| Unsecured Term Loan                    | \$ 150,000                     | \$ 150,000           | \$                   | LIBOR + 85 bp (1)           | October 2005                  |
| Revolving Facility                     | 350,000                        | 235,000              | 296,000              | LIBOR + 65 bp (1) (2)       | June 2007                     |
| Secured Term Loan                      | 150,000                        | 150,000              | 150,000              | LIBOR + 85 bp (1)           | June 2007                     |
| Total Credit Facilities                | \$ 650,000                     | \$ 535,000           | \$ 446,000           |                             |                               |
| <b>MORTGAGES PAYABLE</b>               |                                |                      |                      |                             |                               |
| Fixed Rate Mortgages                   |                                | \$ 514,031           | \$ 506,367           | 6.670 - 9.625%              | 2005 2028                     |
| Variable Rate Mortgages                |                                | 24,535               | 24,755               | Variable (3)                | 2006 2011                     |
| Total Mortgages                        |                                | 538,566              | 531,122              |                             |                               |
| Net unamortized premium                |                                | 19,816               | 20,400               |                             |                               |
| Total Mortgages, net                   | \$                             | 558,382              | \$ 551,522           |                             |                               |
| <b>NOTES PAYABLE</b>                   |                                |                      |                      |                             |                               |
| 7.75% unsecured notes                  |                                | \$                   | \$ 100,000           | 7.750%                      | April 2005                    |
| 7.35% unsecured notes                  |                                |                      | 30,000               | 7.350%                      | June 2007                     |
| 5.88% unsecured notes                  |                                |                      | 250,000              | 5.875%                      | June 2007                     |
| 7.40% unsecured notes                  |                                |                      | 150,000              | 7.400%                      | September 2009                |
| 4.50% unsecured notes (4)              |                                |                      | 150,000              | 4.500%                      | February 2011                 |
| 5.50% unsecured notes                  |                                |                      | 50,000               | 5.500%                      | November 2013                 |
| 5.30% unsecured notes                  |                                |                      | 100,000              | 5.300%                      | January 2015                  |
| 3.75% unsecured notes (5)              |                                |                      | 115,000              | 3.750%                      | June 2023                     |
| 7.97% unsecured notes                  |                                |                      | 10,000               | 7.970%                      | August 2026                   |
| 7.65% unsecured notes                  |                                |                      | 25,000               | 7.650%                      | November 2026                 |
| 7.68% unsecured notes                  |                                |                      | 10,000               | 7.680%                      | November 2026                 |
| 7.68% unsecured notes                  |                                |                      | 10,000               | 7.680%                      | November 2026                 |
| 6.90% unsecured notes                  |                                |                      | 25,000               | 6.900%                      | February 2028                 |
| 6.90% unsecured notes                  |                                |                      | 25,000               | 6.900%                      | February 2028                 |
| 7.50% unsecured notes                  |                                |                      | 25,000               | 7.500%                      | July 2029                     |
| Total Notes                            |                                | 975,000              | 975,000              |                             |                               |
| Net unamortized discount               |                                | (4,361)              | (4,723)              |                             |                               |
| Impact of pay-floating swap agreements |                                | 498                  | 286                  |                             |                               |
| Total Notes, net                       | \$                             | 971,137              | \$ 970,563           |                             |                               |
| <b>CAPITAL LEASES</b>                  | \$                             | 28,061               | \$ 28,234            | 7.500%                      | June 2031                     |
| <b>TOTAL DEBT</b>                      | \$                             | 2,092,580            | \$ 1,996,319         |                             |                               |

(1) The Company incurs interest using the 30-day LIBOR rate which was 3.34% as of June 30, 2005. The interest rate on this facility adjusts based on the Company's credit rating.

(2) The Company also incurs an annual facility fee of 20 basis points on this facility.

- (3) As determined by the applicable loan agreement, the Company incurs interest on these obligations using either the 30-day LIBOR rate, which was 3.34% as of June 30, 2005, plus spreads ranging from 65 to 85 basis points, or the Moody's A Corporate Bond Index, which was 4.91% as of June 30, 2005, plus spreads ranging from 12.5 to 37.5 basis points.
- (4) The Company has entered into reverse interest rate swap agreements that effectively converted the interest rate on \$65.0 million of the notes from a fixed rate to a blended floating rate of 30 basis points over the six-month LIBOR rate.
- (5) Represents the Company's convertible senior notes, which are redeemable for cash, in whole or in part, any time after June 9, 2008.

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

The Company's \$350.0 million unsecured revolving credit facility (the Revolving Facility), the Company's \$150.0 million secured term loan facility (the Secured Term Loan) and the Company's \$150.0 million unsecured term loan facility (the Unsecured Term Loan) require that the Company maintain certain financial coverage ratios. As of June 30, 2005, these coverage ratios included:

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

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately \$1.3 billion

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

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

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

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

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

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

On April 5, 2005, the Company entered into the Unsecured Term Loan. The Unsecured Term Loan, which matures on the earlier of October 5, 2005 or upon the occurrence of certain capital transactions, currently bears interest at LIBOR plus 85 basis points. Net proceeds from the Unsecured Term Loan were used to repay \$100.0 million of the Company's 7.75% medium-term notes that were scheduled to mature on April 6, 2005, as well as to repay a portion of the amount outstanding under the Revolving Facility.

On January 13, 2005, the Company completed a public offering of \$100.0 million aggregate principal amount of unsecured, 10-year fixed rate notes with a coupon of 5.30% (the 2005 Debt Offering). The notes are due on January 15, 2015 and were priced at 99.930% of par value to yield 5.309%. Net proceeds from the offering were used to repay a portion of the amount outstanding under the Revolving Facility. Concurrent with the pricing of the 2005 Debt Offering, the Company settled four of its seven 10-year forward starting interest rate swap agreements with an aggregate of approximately \$100.0 million in notional amount for an aggregate cost of approximately \$2.5 million.

On February 6, 2004, the Company completed a public offering of \$150.0 million aggregate principal amount of unsecured, 7-year fixed rate notes with a coupon of 4.50% (the 2004 Debt Offering). These notes are due on February 1, 2011. The notes were priced at 99.409% of par value to yield 4.6%. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under the Company's then existing revolving credit facility. On January 30, 2004, concurrent with the pricing of the offering, the Company entered into reverse interest rate swaps that effectively converted the interest rate on \$100.0 million of the notes from a fixed rate to a blended floating rate of 39 basis points over the six-month LIBOR rate.

As of June 30, 2005, future expected/scheduled maturities of outstanding long-term debt and capital lease obligations were as follows (in thousands):

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|   |    |           |
|---|----|-----------|
| 2005 (remaining six months)                           | \$ | 170,197   |
| 2006  |    | 44,659    |
| 2007  |    | 706,559   |
| 2008  |    | 204,310   |
| 2009  |    | 178,157   |
| Thereafter  |    | 772,745   |
| Total debt maturities                                 |    | 2,076,627 |
| Net unamortized premiums on mortgages                 |    | 19,816    |
| Net unamortized discount on notes                     |    | (4,361)   |
| Fair value adjustment on pay-floating swap agreements |    | 498       |
| Total debt obligations                                | \$ | 2,092,580 |

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

Risk Management

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

Use of Derivative Financial Instruments

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

On January 30, 2004, concurrent with the pricing of the 2004 Debt Offering, the Company entered into three reverse arrears swap agreements, in notional amounts of \$50.0 million, \$35.0 million and \$15.0 million, that effectively converted the interest rate on \$100.0 million of the debt from a fixed rate to a blended floating rate of 39 basis points over the six-month LIBOR rate. On May 19, 2004, the Company settled the \$35.0 million reverse arrears swap agreement for an aggregate payment of approximately \$1.5 million. The effect of such payment was deferred and will be amortized into earnings as an increase in effective interest expense over the term of the fixed rate borrowing. Concurrent with the settlement of the \$35.0 million reverse arrears swap agreement, the blended floating interest rate on the remaining two swaps was adjusted downward to 30 basis points over the six-month LIBOR rate. The remaining two swaps will terminate on February 1, 2011.

During 2004, the Company entered into seven 10-year forward starting interest rate swap agreements for an aggregate of approximately \$200.0 million in notional amount. These derivative instruments were expected to be used to hedge the risk of changes in interest cash outflows on anticipated fixed rate financings by effectively locking the 10-year LIBOR swap rate. Concurrent with the pricing of the 2005 Debt Offering, the Company settled four of the seven 10-year forward starting interest rate swap agreements with an aggregate of approximately \$100.0 million in notional amount for an aggregate cost of approximately \$2.5 million. The effect of such payment was deferred and will be amortized into earnings as an increase in effective interest expense over the term of the fixed rate borrowing. The remaining three swaps will terminate on April 6, 2015. The gain or loss relating to the effective portion of the remaining three forward starting interest rate swap agreements 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.

The following table summarizes the terms and fair values of the Company's derivative financial instruments at June 30, 2005 (dollars in thousands). The notional amounts at June 30, 2005 provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

| Hedge Product         | Hedge Type | Notional Amount | Strike | Maturity | Fair Value |
|-----------------------|------------|-----------------|--------|----------|------------|
| Reverse Arrears Swap  | Fair Value | \$ 50,000       | 4.380% | 02/01/11 | \$ 520     |
| Reverse Arrears Swap  | Fair Value | \$ 15,000       | 4.030% | 02/01/11 | (22)       |
| Forward Starting Swap | Cash Flow  | \$ 25,000       | 5.053% | 04/06/15 | (1,601)    |
| Forward Starting Swap | Cash Flow  | \$ 25,000       | 5.039% | 04/06/15 | (1,571)    |
| Forward Starting Swap | Cash Flow  | \$ 50,000       | 5.765% | 04/06/15 | (6,114)    |
|                       |            |                 |        |          | \$ (8,788) |

On June 30, 2005, the reverse arrears swap agreements and the forward starting swap agreements were reported at their fair values as Other Assets of \$0.5 million and Other Liabilities of \$9.3 million, respectively. Additionally, the reverse arrears swap debt of approximately \$0.5 million at June 30, 2005 was reported as a component of the notes payable to which it was assigned. As of June 30, 2005, there were approximately \$10.6 million in deferred losses, net, represented in OCI, representing the unamortized portion of the settled swaps, as well as the unsettled portion of the forward starting swap agreements.

Over time, the unrealized gains and losses held in OCI will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. Approximately \$0.9 million of expense, net is expected to be amortized into other comprehensive income over the next six months. The current balance held in OCI is expected to be reclassified to earnings over the lives of the current hedging instruments, or for realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable.

#### Concentration of Credit Risk

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

#### **Note 9: 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 preferred cash and gain allocations. Properties have been contributed to ERP in exchange for limited partnership units (which may be redeemed at stipulated prices for cash or, at the Company's option, shares of common stock of the Company), cash and the assumption of mortgage indebtedness. These units are redeemable for shares of common stock of the Company at exchange ratios currently ranging from 1.0 to 1.4 shares of common stock per unit. ERP unit information is summarized as follows:

|                                  | <b>Total<br/>Units</b> | <b>Company<br/>Units</b> | <b>Limited Partner<br/>Units</b> |
|----------------------------------|------------------------|--------------------------|----------------------------------|
| Outstanding at December 31, 2004 | 6,715,566              | 5,109,215                | 1,606,351                        |
| Issued                           | 612,763(1)             |                          | 612,763(1)                       |
| Outstanding at June 30, 2005     | 7,328,329              | 5,109,215                | 2,219,114                        |

(1) Represents limited partnership units issued in connection with the Company's acquisition of Hillcrest Shopping Center on February 16, 2005 (Note 3).





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

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

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2005                           | 2004      | 2005                         | 2004      |
| <b>Basic EPS</b>   |                                |           |                              |           |
| <b>Numerator:</b>  |                                |           |                              |           |
| Income from continuing operations  | \$ 33,650                      | \$ 32,940 | \$ 66,640                    | \$ 67,575 |
| Preferred dividends  | (5,471)                        | (5,275)   | (10,938)                     | (10,550)  |
| Net income available to common shares from continuing operations - basic     | 28,179                         | 27,665    | 55,702                       | 57,025    |
| Net income available to common shares from discontinued operations - basic   | 7,047                          | (24)      | 12,743                       | 2,738     |
| Net income available to common shares - basic                                | \$ 35,226                      | \$ 27,641 | \$ 68,445                    | \$ 59,763 |
| <b>Denominator:</b>  |                                |           |                              |           |
| Weighted average of common shares outstanding                                | 103,164                        | 100,159   | 103,002                      | 99,789    |
| Earning per share - continuing operations                                    | \$ 0.27                        | \$ 0.28   | \$ 0.54                      | \$ 0.57   |
| Earnings per share - discontinued operations                                 | 0.07                           |           | 0.12                         | 0.03      |
| Basic earnings per common share  | \$ 0.34                        | \$ 0.28   | \$ 0.66                      | \$ 0.60   |
| <b>Diluted EPS</b>   |                                |           |                              |           |
| <b>Numerator:</b>  |                                |           |                              |           |
| Income from continuing operations  | \$ 33,650                      | \$ 32,940 | \$ 66,640                    | \$ 67,575 |
| Preferred dividends  | (5,471)                        | (5,275)   | (10,938)                     | (10,550)  |
| Minority interest in consolidated partnership                                | 251                            | 286       | 533                          | 546       |
| Net income available to common shares from continuing operations - diluted   | 28,430                         | 27,951    | 56,235                       | 57,571    |
| Net income available to common shares from discontinued operations - diluted | 7,047                          | (24)      | 12,743                       | 2,738     |
| Net income available to common shares - diluted                              | \$ 35,477                      | \$ 27,927 | \$ 68,978                    | \$ 60,309 |
| <b>Denominator:</b>  |                                |           |                              |           |
| Weighted average of common shares outstanding basic                          | 103,164                        | 100,159   | 103,002                      | 99,789    |
| Effect of diluted securities:  |                                |           |                              |           |
| Common stock options and contingently issuable shares                        | 982                            | 874       | 1,016                        | 1,052     |
| Excel Realty Partners, L.P. third party units                                | 2,264                          | 1,239     | 2,145                        | 1,301     |

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|  |    |         |         |         |         |
|--|----|---------|---------|---------|---------|
| Convertible debt   |    | 231     |         | 199     |         |
| Restricted stock   |    | 44      |         | 42      |         |
| Weighted average of common shares<br>outstanding - diluted |    | 106,685 | 102,272 | 106,404 | 102,142 |
| Earning per share - continuing operations                  | \$ | 0.27    | \$ 0.27 | \$ 0.53 | \$ 0.56 |
| Earnings per share - discontinued operations               |    | 0.06    |         | 0.12    | 0.03    |
| Diluted earnings per common share                          | \$ | 0.33    | \$ 0.27 | \$ 0.65 | \$ 0.59 |

Note - For the three months ended June 30, 2005 and 2004, there were approximately 0.6 million and 0.9 million stock options, respectively, that were anti-dilutive. For the six months ended June 30, 2005 and 2004, there were approximately 0.6 million stock options that were anti-dilutive.

### Common Stock

To maintain its qualification as a REIT, not more than 50% in value of the outstanding shares of the Company may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of any taxable year of the Company (defined to include certain entities), applying certain constructive ownership rules. To help ensure that the Company will not fail this test, the Company's Articles of Incorporation provide for, among other things, certain restrictions on the transfer of common stock to prevent further concentration of stock ownership. Moreover, to evidence compliance with these requirements, the Company must maintain records that disclose the actual ownership of its outstanding common stock and will demand written statements each year from the holders of record of designated percentages of its common stock requesting the disclosure of the beneficial owners of such common stock.

On August 23, 2004, the Company sold 2,000,000 of its common shares in a public offering (the Common Stock Offering). The net proceeds from the offering were approximately \$50.0 million and were used to repay a portion of the borrowings outstanding under the Revolving Facility.

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 \$50.0 million of common stock in at the market transactions. As of June 30, 2005, the Company had not issued or sold any common stock under this distribution program.

### Common Stock Repurchases

In October 1999, the Company commenced a program to repurchase up to \$75.0 million of the Company's outstanding common stock from time to time through periodic open market transactions or through privately negotiated transactions. Through June 30, 2005, approximately 2,150,000 shares have been repurchased and retired at an average purchase price of \$15.30 per share. No shares were repurchased in 2004 or in the six months ended June 30, 2005.

### Preferred Stock

The Company has 8,000,000 Series E depositary shares outstanding, each representing a 1/10 fractional interest of a share of 7.625% Series E Cumulative Redeemable Preferred Stock (the Preferred E Shares).

The Company also has 1,500,000 Series D depositary shares outstanding, each representing a 1/10 fractional interest in a share of 7.8% Series D Cumulative Voting Step-Up Premium Rate Preferred Stock (the Preferred D Shares), which are redeemable at the option of the Company on or after June 15, 2007 at a liquidation preference of \$500.00 per share. The Preferred D Shares pay dividends quarterly at the rate of 7.8% of the liquidation preference per annum through September 2012 and at the rate of 9.8% of the liquidation preference per annum thereafter. Beginning in the third quarter of 2004, in accordance with applicable accounting rules, and as a result of the step-up of the dividend to 9.8% of the liquidation preference beginning in 2012, the Company recorded quarterly non-cash increases to the current dividend payable. For the three and six months ended June 30, 2005, the Company recorded total, non-cash increases of approximately \$0.2 million and \$0.4 million, respectively. The Company expects to continue recognizing additional quarterly non-cash charges with respect to the Preferred D Shares in amounts that are not expected to vary materially from the amounts recognized for the second quarter.

Stock Based Compensation

Stock Options

The Company currently has one active stock option plan and three stock option plans under which option grants are no longer made. In addition, two option grants were made to the Company's Chief Executive Officer in February 2000, which were not part of the previously mentioned plans. Pursuant to the four plans and two additional option grants, stock options have been granted to purchase shares of common stock of the Company to officers,

directors, and certain employees of the Company. The active plan is the 2003 Stock Incentive Plan (the 2003 Plan), which provides for the grant of stock options, stock grants and certain other types of stock based awards to officers, directors and certain employees of the Company. The exercise price of stock options granted pursuant to the 2003 Plan is required to be no less than the fair market value of a share of common stock on the date of grant. The vesting schedule and other terms of stock options granted under the 2003 Plan are determined at the time of grant by the Company's executive compensation and stock option committee. As of June 30, 2005, approximately 3.4 million shares were available for stock option grants and 0.8 million shares were available for stock grants or other types of stock based awards other than stock option grants (and to the extent that any such stock grants or other types of stock based awards are issued, then there is a share for share reduction in the number of shares available for stock option grants) under the 2003 Plan. The stock options outstanding under the four plans and the two additional option grants, at June 30, 2005, had exercise prices from \$12.8125 to \$26.94 and a weighted average remaining contractual life of approximately seven years. The total option shares exercisable under all four plans and the two additional option grants, at June 30, 2005, was approximately 1.7 million.

The following tables summarize information concerning outstanding and exercisable options as of June 30, 2005:

| Exercise Price | OPTIONS OUTSTANDING |   |                                 | OPTIONS EXERCISABLE   |                                 |  |
|----------------|---------------------|---|---------------------------------|-----------------------|---------------------------------|--|
|                | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Currently Exercisable | Weighted Average Exercise Price |  |
| \$ 12.8125     | 674,171             | 4.7 years                                   | \$ 12.8125                      | 674,171               | \$ 12.8125                      |  |
| \$ 13.8125     | 15,000              | 4.9 years                                   | \$ 13.8125                      | 15,000                | \$ 13.8125                      |  |
| \$ 14.0000     | 56,000              | 5.2 years                                   | \$ 14.0000                      | 34,700                | \$ 14.0000                      |  |
| \$ 14.4375     | 42,600              | 4.9 years                                   | \$ 14.4375                      | 42,600                | \$ 14.3750                      |  |
| \$ 15.4800     | 371,060             | 5.7 years                                   | \$ 15.4800                      | 200,660               | \$ 15.4800                      |  |
| \$ 17.1100     | 16,000              | 5.9 years                                   | \$ 17.1100                      | 16,000                | \$ 17.1100                      |  |
| \$ 19.1600     | 457,413             | 7.7 years                                   | \$ 19.1600                      | 70,560                | \$ 19.1600                      |  |
| \$ 19.6600     | 25,000              | 6.9 years                                   | \$ 19.6600                      | 25,000                | \$ 19.6600                      |  |
| \$ 19.8750     | 144,450             | 3.9 years                                   | \$ 19.8750                      | 144,450               | \$ 19.8750                      |  |
| \$ 19.9900     | 703,560             | 6.8 years                                   | \$ 19.9900                      | 182,704               | \$ 19.9900                      |  |
| \$ 20.0625     | 16,250              | 3.9 years                                   | \$ 20.0625                      | 16,250                | \$ 20.0625                      |  |
| \$ 20.1250     | 29,780              | 3.3 years                                   | \$ 20.1250                      | 29,780                | \$ 20.1250                      |  |
| \$ 20.8300     | 35,000              | 7.9 years                                   | \$ 20.8300                      | 35,000                | \$ 20.8300                      |  |
| \$ 22.6250     | 4,000               | 0.2 years                                   | \$ 22.6250                      | 4,000                 | \$ 22.6250                      |  |
| \$ 23.8100     | 37,250              | 8.9 years                                   | \$ 23.8100                      | 37,250                | \$ 23.8100                      |  |
| \$ 24.4167     | 3,000               | 2.6 years                                   | \$ 24.4167                      | 3,000                 | \$ 24.4167                      |  |
| \$ 25.6900     | 537,500             | 9.7 years                                   | \$ 25.6900                      |                       | \$ 25.6900                      |  |
| \$ 26.1000     | 544,100             | 8.7 years                                   | \$ 26.1000                      | 108,820               | \$ 26.1000                      |  |
| \$ 26.9400     | 39,500              | 9.9 years                                   | \$ 26.9400                      | 39,500                | \$ 26.9400                      |  |
| Total          | 3,751,634           | 6.9 years                                   | \$ 19.7863                      | 1,679,445             | \$ 16.8580                      |  |

Stock option activity is summarized as follows:

| Option Shares | Weighted Average Exercise Price Per Share |
|---------------|---|
|---------------|---|

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

|                                      |           |    |       |
|--------------------------------------|-----------|----|-------|
| Outstanding at December 31, 2004     | 3,805,124 | \$ | 18.85 |
| Granted                              | 596,200   | \$ | 25.77 |
| Exercised                            | (395,530) | \$ | 18.58 |
| Forfeited                            | (254,160) | \$ | 21.88 |
| Outstanding at June 30, 2005         | 3,751,634 | \$ | 19.78 |
| Options exercisable at June 30, 2005 | 1,679,445 | \$ | 16.86 |

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 SFAS No. 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 SFAS No. 123, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of the transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are to be applied for fiscal years ending after December 15, 2002. The interim disclosure provisions of SFAS No. 148 are effective for the first interim period beginning after December 15, 2002. Effective January 1, 2003, the Company adopted the prospective method provisions of SFAS No. 148, which apply the recognition provisions of FAS 123 to all employee stock awards granted, modified or settled after January 1, 2003. The adoption of SFAS No. 148 did not have a material impact on the consolidated financial statements of the Company.

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 Opinion 25 and related interpretations. Under Opinion 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.

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

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 (dollars in thousands, except per share amounts):

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2005                           | 2004      | 2005                         | 2004      |
| Net income, as reported   | \$ 40,697                      | \$ 32,916 | \$ 79,383                    | \$ 70,313 |
| Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (87)                           | (310)     | (173)                        | (620)     |
| Pro forma net income  | \$ 40,610                      | \$ 32,606 | \$ 79,210                    | \$ 69,693 |
| Earnings per share:   |                                |           |                              |           |
| Basic as reported   | \$ 0.34                        | \$ 0.28   | \$ 0.66                      | \$ 0.60   |
| Basic pro forma   | \$ 0.34                        | \$ 0.27   | \$ 0.66                      | \$ 0.59   |
| Earnings per share:   |                                |           |                              |           |
| Diluted as reported   | \$ 0.33                        | \$ 0.27   | \$ 0.65                      | \$ 0.59   |
| Diluted pro forma   | \$ 0.33                        | \$ 0.27   | \$ 0.65                      | \$ 0.58   |

Stock Awards

During the six months ended June 30, 2005, the Company granted 59,520 restricted shares of common stock to certain employees. Of these shares, 29,760 will vest proportionately over five years, commencing on the first anniversary date of the initial grant. The balance of the restricted shares vest proportionately over the same five year period upon satisfaction of annual performance criteria established each year by the Company's executive compensation and stock option committee.

For accounting purposes, the Company measures compensation costs for restricted shares as of the date of the grant and expenses such amounts against earnings, ratably over the respective vesting period. Such amounts appear on the Company's Consolidated Statements of Income and Comprehensive Income under General and administrative.

During the six months ended June 30, 2005, the Company also granted 3,339 shares of common stock to members of its Board of Directors. These shares vested immediately upon grant. For accounting purposes, the Company measured compensation costs for these shares as of the date of grant and expensed such amounts against earnings on the grant date. Such amounts appear on the Company's Consolidated Statements of Income and Comprehensive Income under General and administrative.

On March 15, 2005, the Company entered into a new employment agreement with Glenn Rufrano, the Company's Chief Executive Officer. Pursuant to the terms of the employment agreement, Mr. Rufrano may receive an award of common stock in the event that over either a four or five year performance period either of two specified performance criteria are achieved. The value of the common stock award will vary based on the level of performance achieved, but the maximum award of common stock that can be achieved is \$6.0 million.

Dividend Reinvestment Plan



Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

The Company has a Dividend Reinvestment and Share Purchase Plan whereby shareholders may invest cash distributions and make optional cash payments to purchase shares of the Company's common stock. The additional shares currently are issued directly by the Company.

Deferred Compensation Plan

Effective July 1, 2004, the Company adopted a deferred compensation plan. The purpose of the plan is to provide participants with the opportunity to defer receipt of a portion of their salary, bonus and other specified cash and equity-based compensation. Eligibility for the plan is determined at the sole discretion of the Company's Executive Compensation and Stock Option Committee. The Company has established grantor trusts, also known as Rabbi Trusts, to act as vehicles for accumulating the assets needed to pay the promised benefit. As of June 30, 2005, the assets under the plan, which are reflected in Prepaid expenses and deferred charges on the Company's Consolidated Balance Sheets, and the corresponding liabilities under the plan, which are reflected in Other liabilities on the Company's Consolidated Balance Sheets, were approximately \$1.5 million. Expenses for the three and six months ended June 30, 2005 were immaterial.

**Note 11: Commitments and Contingencies**

General

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties. The Company is involved in routine litigation arising in the ordinary course of business, none of which is believed to be material. The Company has, however, reserved approximately \$2.3 million as of June 30, 2005 in connection with a specific tenant litigation. There can be no assurance as to the final outcome of this litigation and whether it will exceed or fall short of the amount reserved; however, even if the Company's ultimate loss is more than the reserve established, the Company does not expect that the amount of the loss in excess of the reserve would be material.

Funding Commitments

In addition to the joint venture funding commitments described in Note 6, the Company also had the following contractual obligations as of June 30, 2005, none of which the Company believes will have a material adverse affect on the Company's operations:

*Letters of Credit.* The Company has arranged for the provision of four separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, the Company will be obligated to reimburse the providing bank for the amount of the draw. None of the letters of credit were drawn as of June 30, 2005. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately \$4.5 million.

*Non-Recourse Debt Guarantees.* Under certain Company and joint venture non-recourse mortgage loans, the Company could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of June 30, 2005, the Company had mortgage loans outstanding of approximately \$558.4 million, and joint ventures in which the Company has a direct or indirect interest had mortgage loans outstanding of approximately \$378.5 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 (dollars in thousands):

| Year                        |    |        |
|-----------------------------|----|--------|
| 2005 (remaining six months) | \$ | 1,167  |
| 2006                        |    | 2,390  |
| 2007                        |    | 2,819  |
| 2008                        |    | 2,437  |
| 2009                        |    | 2,399  |
| Thereafter                  |    | 40,225 |

#### Environmental Matters

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

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

#### **Note 12: Comprehensive Income**

Total comprehensive income was \$35.9 million and \$36.7 million for the three months ended June 30, 2005 and 2004, respectively. Total comprehensive income was \$76.7 million and \$71.8 million for the six months ended June 30, 2005 and 2004, 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.

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

As of June 30, 2005 and December 31, 2004, accumulated other comprehensive income reflected in the Company's stockholders' equity on the Consolidated Balance Sheets was comprised of the following (dollars in thousands):

|   | As of<br>June 30, 2005 | As of<br>December 31, 2004 |
|---|------------------------|----------------------------|
| Unrealized gains on available-for-sale securities | \$ 2,785               | \$ 2,460                   |
| Unrealized gains on deferred compensation         | 24                     |                            |
| Realized gains on interest risk hedges            | 1,862                  | 1,973                      |
| Realized losses on interest risk hedges           | (3,137)                | (969)                      |
| Unrealized losses on interest risk hedges         | (9,286)                | (8,495)                    |
| Accumulated other comprehensive loss              | \$ (7,752)             | \$ (5,031)                 |

### Note 13: Subsequent Event

On July 13, 2005, the Company amended the Unsecured Term Loan increasing the amount that may be borrowed from \$150.0 million to \$200.0 million, and concurrently increased the amount borrowed from \$150.0 million to \$200.0 million.

On July 19, 2005, the Company entered into a definitive agreement with Galileo America LLC (the "US Partnership") to sell an aggregate of 69 community and neighborhood shopping centers (the "Properties") to the US Partnership (the "Property Transfer"). The US Partnership will acquire the Properties for approximately \$968.0 million of total consideration, comprised of approximately \$928.2 million in cash and approximately \$39.8 million of equity in the US Partnership. The Company will have the right to receive up to an additional \$12.0 million in cash based upon the performance of the Properties during the 18-month period following the closing of the Property Transfer. The closing of the Property Transfer, which is subject to various conditions, is expected to occur in the third quarter of 2005.

A series of related transactions are expected to occur simultaneously with the closing of the Property Transfer, including (i) the redemption by the US Partnership of an existing interest in the US Partnership held by CBL & Associates Properties, Inc. ("CBL") for two properties currently owned by the US Partnership, (ii) the purchase by the Company of an asset management fee stream from the US Partnership for \$18.5 million and (iii) the acquisition by the Company of the property management rights of CBL with respect to the US Partnership for \$22.0 million (plus an agreement to purchase additional property management rights in 2008 for \$7.0 million) (such transactions are referred to collectively with the Property Transfer as the "Galileo Transactions"). Upon closing, the Company will own an approximate 5% interest in the US Partnership.

Net proceeds to the Company from the transactions, including adjustments for the Company's equity interest in the US Partnership, the repayment of approximately \$101.2 million of secured indebtedness, the acquisitions of the asset management fee stream and property management rights and transaction costs, will be approximately \$754.2 million of cash. The Company expects to use a portion of the net proceeds initially to pay down approximately \$438.5 million of additional outstanding indebtedness. In addition, the Company currently expects to pay a special cash distribution of \$3.00 per share of common stock, aggregating approximately \$315.7 million, shortly after the closing of the Galileo Transactions. The Company expects to record a gain on the sale of approximately \$183.0 million.

On July 19, 2005, in anticipation of the Galileo Transactions, the Company also entered into amendments to the (i) Revolving Facility, (ii) Secured Term Loan and (iii) Unsecured Term Loan (collectively, the "Credit Agreements"). The amendments to each of the Credit Agreements were substantially identical.

As part of the amendments:

The covenants in the Credit Agreements relating to asset sales by the Company were amended to permit the Company to sell or otherwise transfer assets so long as the transfers do not exceed (i) with respect to 2005, 30% of the total book value of all

property of the Company determined as of December 31, 2004, and (ii) with respect to each year thereafter, 25% of the total book value of all property of the Company determined as of last day of the preceding year (the Asset Sale Covenants );

The covenants in the Credit Agreements relating to permitted dividends by the Company were amended to specifically provide that the special dividend expected to be distributed to stockholders of the Company following the Galileo Transactions is permitted under the terms of the Credit Agreements (the Dividend Covenants );

The covenants in the Credit Agreements relating to the Company's minimum tangible net worth were amended to provide that the Company's minimum net worth requirement will be reduced from \$1.278 billion to \$1.225 billion (plus 80% of the net proceeds received by the Company from future issuances of capital stock) (the Minimum Net Worth Covenants );

The covenants in the Credit Agreements that set forth the maximum ratio of the Company's total unsecured debt to unencumbered asset value were amended to increase the ratio from 55% to 57.5% (the Unsecured Debt to Unencumbered Asset Value Covenants ); and

The capitalization rates used to calculate the value of the Company's assets for purposes of certain ratio tests (i.e., in calculating the Company's operating property value and unencumbered asset value) were decreased from 9.0% to 8.5% (the Capitalization Rates ).

The changes to the Asset Sale Covenants, the Dividend Covenants and the Minimum Net Worth Covenants will be effective only upon the closing of the Galileo Transactions. The changes to the Unsecured Debt to Unencumbered Asset Value Covenants and the Capitalization Rates are effective immediately.

On August 4, 2005, the Company announced that it has called for redemption all \$250.0 million of its outstanding 5.875% senior notes due June 15, 2007. The notes will be redeemed on September 15, 2005 at a redemption price of 100% of their principal amount plus any interest accrued up to, but excluding, the redemption date, and the applicable make-whole premium relating to such notes. Interest on the notes will cease to accrue on and after the redemption date.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

During the six months ended June 30, 2005, we acquired three shopping centers (Brunswick Town Center, Hillcrest Shopping Center and West Ridge Shopping Center), a vacant building and 2.5 acres of land immediately adjacent to Midway Crossing, a community shopping center owned by us, the remaining 90% interest in Marketplace at Wycliffe, a shopping center in which we owned the other 10% interest, and the remaining 90% interest in Mableton Walk, a shopping center in which we owned the other 10% interest (collectively, 2005 Acquisitions). During 2004, we acquired 10 shopping centers (New Britain Village Square, Elk Grove Town Center, Florence Square, Stockbridge Village, Starlite Plaza, Village Center, Annex of Arlington, Marketplace, Silver Pointe and The Shoppes at Southside), 11 acres of unimproved land known as Unity Plaza, the remaining 50% interest in Clearwater Mall, a shopping center in which we owned the other 50% interest, and the remaining 50% interest in The Market at Preston Ridge, a shopping center in which we owned the other 50% interest (collectively, 2004 Acquisitions). Accordingly, our results of operations for the three and six months ended June 30, 2005 include the results of operations of the 2005 Acquisitions (from and after the date of acquisition) and the 2004 Acquisitions.

In accordance with the provisions of FIN 46, our consolidated results of operations for the three and six months ended June 30, 2005 and 2004 include the results of operations of three of our joint ventures, as applicable, based on date of acquisition or disposition (Benbrooke Ventures, The Market at Preston Ridge and BPR West (collectively, FIN 46 Consolidation Adjustments)) previously accounted for under the equity method.

**Results of operations for the three months ended June 30, 2005 and 2004**

***Rental Revenues:***

Total rental revenues increased \$11.7 million, or 10%, from \$120.8 million for the three months ended June 30, 2004 to \$132.5 million for the three months ended June 30, 2005. Significant changes are discussed below.

Rental income increased \$6.4 million, or 7%, from \$95.1 million for the three months ended June 30, 2004 to \$101.5 million for the three months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased rental income by approximately \$1.6 million

2004 Acquisitions, which increased rental income by approximately \$3.1 million



Net increases in occupancy and rental rates, which increased rental income by approximately \$3.0 million

Increased lease settlement income, which increased rental income by approximately \$0.8 million

FIN 46 Consolidation Adjustments, which decreased rental income by approximately \$0.5 million

Decreases in cost of living adjustments, which decreased rental income by approximately \$0.2 million

Redevelopment projects, which increased out of service space and therefore decreased rental income by approximately \$1.3 million

Decreased late charge income, which accounted for the balance of the variance

Expense reimbursements increased \$5.0 million, or 20%, from \$24.4 million for the three months ended June 30, 2004 to \$29.4 million for the three months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased expense reimbursements by approximately \$0.2 million

2004 Acquisitions, which increased expense reimbursements by approximately \$0.5 million

A general increase in the amount of reimbursable real estate taxes, which increased expense reimbursements by approximately \$2.1 million

An increase in the amount of reimbursable common area maintenance expenses, which increased expense reimbursements by approximately \$2.4 million

Increased capitalization of expenses, primarily attributable to our redevelopment projects, which increased out of service space and decreased expense reimbursements, thereby accounting for the balance of the variance

***Expenses:***

Total operating expenses increased \$8.8 million, or 14%, from \$63.3 million for the three months ended June 30, 2004 to \$72.1 million for the three months ended June 30, 2005. Significant changes are discussed below.

Operating costs increased \$2.2 million, or 11%, from \$19.3 million for the three months ended June 30, 2004 to \$21.5 million for the three months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased operating costs by approximately \$0.3 million

2004 Acquisitions, which increased operating costs by approximately \$0.5 million

Increased payroll and payroll related expenses, attributable to increased personnel levels and increased management fees, which increased operating costs by approximately \$0.6 million

Combined increases in utilities and snow removal costs, primarily attributable to the extended winter conditions experienced in the Northeast and Western regions of the country, which increased operating costs by approximately \$0.7 million

Increased common area repair expenses, resulting from painting and parking lot surface repairs, which increased operating costs by approximately \$0.4 million

FIN 46 Consolidation Adjustments, which decreased operating costs by approximately \$0.1 million

Decreased insurance expense attributable to lower premiums under our renewed policy that went into effect in April 2005, which decreased operating costs by approximately \$0.2 million

Real estate taxes increased \$3.7 million, or 25%, from \$15.0 million for the three months ended June 30, 2004 to \$18.7 million for the three months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased real estate taxes by approximately \$0.3 million

2004 Acquisitions, which increased real estate taxes by approximately \$0.6 million

Property tax rate increases at certain municipalities, combined with higher assessments at certain properties, which increased real estate taxes by approximately \$2.8 million

Depreciation and amortization increased \$3.2 million, or 15%, from \$21.4 million for the three months ended June 30, 2004 to \$24.6 million for the three months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased depreciation and amortization by approximately \$0.8 million

2004 Acquisitions, which increased depreciation and amortization by approximately \$1.2 million

Increased depreciation expense attributable to tenant improvements, which increased depreciation and amortization by approximately \$0.7 million

Increased depreciation expense on properties previously under redevelopment or classified as held for sale, which increased depreciation and amortization by approximately \$0.4 million

Increased amortization expense attributable to deferred leasing commissions and legal fees, which accounted for the balance of the variance

General and administrative expenses decreased \$0.2 million, or 4%, from \$5.2 million for the three months ended June 30, 2004 to \$5.0 million for the three months ended June 30, 2005. The following factors accounted for this variance:

Increased rent expense for our new corporate office location, which increased general and administrative expenses by approximately \$0.6 million

Costs incurred in connection with offshore accounting, which increased general and administrative expenses by approximately \$0.3 million

Decreased accounting fees, primarily attributable to lower costs incurred in connection with complying with regulations under Section 404 of the Sarbanes-Oxley Act of 2002, which decreased general and administrative expenses by approximately \$0.3 million

Decreased state tax expense, primarily attributable to the reversal of reserves previously taken, which decreased

general and administrative expenses by approximately \$0.5 million

Decreased legal fees, which accounted for the balance of the variance

*Other Income and Expenses:*

Interest expense increased \$1.7 million, or 6%, from \$26.5 million for the three months ended June 30, 2004 to \$28.2 million for the three months ended June 30, 2005. The following factors accounted for this variance:

An increase in the balance outstanding under the Revolving Facility, compounded by a higher interest rate on the Revolving Facility, which increased interest expense by approximately \$1.8 million

An increase in the balance outstanding under the Secured Term Loan, compounded by a higher interest rate on the Secured Term Loan, which increased interest expense by approximately \$0.4 million

The entry into the Unsecured Term Loan, which increased interest expense by approximately \$1.3 million

Increased interest rates on our settled derivative financial instruments, which increased interest expense by approximately \$1.1 million

Decreased amortization of debt issuance costs, which decreased interest expense by approximately \$0.7 million

A net decrease in the amount of public debt outstanding, primarily attributable the repayment of \$100.0 million of 7.75% medium-term notes, \$75.0 million of 6.875% medium-term notes and

\$49.0 million of 7.33% medium-term notes, partially offset by increases attributable the 2005 Debt Offering and the 2004 Debt Offering, which decreased interest expense by approximately \$1.7 million

Decreased financing fees, which decreased interest expense by approximately \$0.1 million

Increased capitalized interest with respect to our redevelopment projects, which decreased interest expense by approximately \$0.4 million

***Discontinued Operations:***

Effective January 1, 2002, we adopted SFAS No. 144. This statement retains the requirement of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, to report discontinued operations separately from continuing operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. For the three months ended June 30, 2005, such properties generated approximately \$0.4 million and \$6.7 million in results of operations and gain on sale, respectively. For the three months ended June 30, 2004, such properties generated approximately \$0.9 million and \$(1.0) million in results of operations and loss on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

**Results of operations for the six months ended June 30, 2005 and 2004**

***Rental Revenues:***

Total rental revenues increased \$17.7 million, or 7%, from \$244.0 million for the six months ended June 30, 2004 to \$261.7 million for the six months ended June 30, 2005. Significant changes are discussed below.

Rental income increased \$12.3 million, or 6%, from \$189.9 million for the six months ended June 30, 2004 to \$202.2 million for the six months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased rental income by approximately \$2.3 million

2004 Acquisitions, which increased rental income by approximately \$8.1 million

Increases in occupancy and rental rates, which increased rental income by approximately \$4.1 million

Increased lease settlement income, which increased rental income by approximately \$0.4 million

FIN 46 Consolidation Adjustments, which decreased rental income by approximately \$0.5 million

Redevelopment projects, which increased out of service space and therefore decreased rental income by approximately \$1.8 million

Decreased cost of living adjustments, which accounted for the balance of the variance

Expense reimbursements increased \$5.0 million, or 10%, from \$50.2 million for the six months ended June 30, 2004 to \$55.2 million for the six months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased expense reimbursements by approximately \$0.3 million

2004 Acquisitions, which increased expense reimbursements by approximately \$1.7 million

A general increase in the amount of reimbursable real estate taxes, which increased expense reimbursements by approximately \$2.2 million

An increase in the amount of reimbursable common area maintenance expenses, which increased expense reimbursements by approximately \$2.5 million

FIN 46 Consolidation Adjustments, which decreased expense reimbursements by approximately \$0.1 million





A decrease in the amount of reimbursable insurance expense attributable to lower premiums under our renewed insurance policy, which decreased expense reimbursements by approximately \$1.1 million

Increased capitalization of expenses, primarily attributable to our redevelopment projects, which increased out of service space and decreased expense reimbursements by approximately \$0.3 million

Decreased legal expense reimbursement, which accounted for the balance of the variance

*Expenses:*

Total operating expenses increased \$14.8 million, or 11%, from \$129.1 million for the six months ended June 30, 2004 to \$143.9 million for the six months ended June 30, 2005. Significant changes are discussed below.

Operating costs increased \$1.3 million, or 3%, from \$42.6 million for the six months ended June 30, 2004 to \$43.9 million for the six months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased operating costs by approximately \$0.4 million

2004 Acquisitions, which increased operating costs by approximately \$1.2 million

Increased payroll and payroll related expenses, primarily attributable to increased personnel, higher wage rates and increased management fees, which increased operating costs by approximately \$1.1 million

Increased common area repair expenses, primarily resulting from painting, landscaping and parking lot surface repairs, which increased operating costs by approximately \$0.4 million

Combined increases in utilities, cleaning, sweeping, security, and snow removal costs, which increased operating costs by approximately \$0.9 million

FIN 46 Consolidation Adjustments, which decreased operating costs by approximately \$0.1 million

Decreased insurance expense, attributable to lower premiums under our renewed policy that went into effect in April 2005, which decreased operating costs by approximately \$1.8 million

Increased capitalization of expenses, primarily attributable to our redevelopment projects, which decreased operating costs by approximately \$0.8 million

Real estate taxes increased \$5.1 million, or 17%, from \$29.9 million for the six months ended June 30, 2004 to \$35.0 million for the six months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased real estate taxes by approximately \$0.4 million

2004 Acquisitions, which increased real estate taxes by approximately \$1.7 million

Property tax rate increases at certain municipalities, combined with higher assessments at certain properties, which increased real estate taxes by approximately \$3.0 million

Depreciation and amortization increased \$7.7 million, or 18%, from \$42.2 million for the six months ended June 30, 2004 to \$49.9 million for the six months ended June 30, 2005. The following factors accounted for this variance:

2005 Acquisitions, which increased depreciation and amortization by approximately \$1.0 million

2004 Acquisitions, which increased depreciation and amortization by approximately \$3.8 million

Increased depreciation expense attributable to tenant improvements, which increased depreciation and amortization by approximately \$2.0 million

Increased depreciation expense on properties previously under redevelopment or classified as held for sale, which increased depreciation and amortization by approximately \$0.9 million

Provision for doubtful accounts increased \$0.7 million, or 16%, from \$4.3 million for the six months ended June 30, 2004 to \$5.0 million for the six months ended June 30, 2005. The following factors accounted for this variance:

Decreased write-offs, due to lower tenant bankruptcy levels, which increased provision for doubtful accounts by approximately \$1.3 million

Increased capitalization of expenses, primarily attributable to our redevelopment projects, which decreased provision for doubtful accounts by approximately \$0.3 million

Increased recoveries, primarily attributable to aggressive collection efforts, which decreased provision for doubtful accounts by approximately \$0.3 million

General and administrative expenses decreased \$0.2 million, or 2%, from \$10.2 million for the six months ended June 30, 2004 to \$10.0 million for the six month ended June 30, 2005. The following factors accounted for this variance:

Increased payroll related expenses, attributable to additional stock option expense taken in accordance with the provisions of SFAS No. 148, as well as increased personnel levels and increased wage rates, which increased general and administrative expenses by approximately \$0.7 million

Increased rent expense for our new corporate office location, which increased general and administrative expenses by approximately \$1.0 million

Decreased accounting fees, primarily attributable to lower costs incurred in connection with complying with regulations under Section 404 of the Sarbanes-Oxley Act of 2002, partially offset by increased costs incurred from offshore accounting services, which decreased general and administrative expenses by approximately \$0.2 million

Decreased state tax expense, primarily attributable to the reversal of reserves previously taken, which decreased general and administrative expenses by approximately \$0.6 million

Decreased legal fees, which decreased general and administrative expenses by approximately \$0.3 million

Increased cost allocations, primarily attributable to higher regional office costs, which decreased general and administrative expenses by approximately \$0.8 million

*Other Income and Expenses:*

Interest expense increased \$2.6 million, or 5%, from \$52.9 million for the six months ended June 30, 2004 to \$55.5 million for the six months ended June 30, 2005. The following factors accounted for this variance:

An increase in the balance outstanding under the Revolving Facility, compounded by a higher interest rate on the Revolving Facility, which increased interest expense by approximately \$2.1 million

An increase in the balance outstanding under the Secured Term Loan, compounded by a higher interest rate on the Secured Term Loan, which increased interest expense by approximately \$1.5 million

The entry into the Unsecured Term Loan, which increased interest expense by approximately \$1.4 million

Increased interest expense on our derivative financial instruments, which increased interest expense by approximately \$0.7 million

Decreased amortization of debt issuance costs, which decreased interest expense by approximately \$0.6 million

Decreased financing fees, which decreased interest expense by approximately \$0.2 million

A net decrease in the amount of public debt outstanding, primarily attributable to the repayment of \$100.0 million of 7.75% medium-term notes, \$75.0 million of 6.875% medium-term notes and \$49.0 million of 7.33% medium-term notes, partially offset by increases attributable to the 2005 Debt Offering and the 2004 Debt Offering, which decreased interest expense by approximately \$1.3 million

A net decrease in the amount of mortgage debt outstanding, primarily attributable to the payoff of several mortgages, partially offset by the assumption of mortgages in connection with the 2005 Acquisitions and the 2004 Acquisitions, which decreased interest expense by approximately \$0.7 million

Increased capitalized interest with respect to our redevelopment projects, which accounted for the balance of the variance

***Discontinued Operations:***

Effective January 1, 2002, we adopted SFAS No. 144. This statement retains the requirement of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, to report discontinued operations separately from continuing operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. For the six months ended June 30, 2005, such properties generated approximately \$1.0 million and \$11.7 million in results of operations and gain on sale, respectively. For the six months ended June 30, 2004, such properties generated approximately \$2.3 million and \$0.4 million in results of operations and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

**Funds from Operations**

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

On October 1, 2003, the National Association of Real Estate Investment Trusts ( NAREIT ), based on discussions with the SEC, provided revised guidance regarding the calculation of FFO. This revised guidance provides that impairments should not be added back to net income in calculating FFO and that original issuance costs associated with preferred stock that has been redeemed should be factored into the calculation of FFO. We present FFO in accordance with NAREIT 's revised guidance in the table set forth below.

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

needs, including our ability to make distributions. Our computation of FFO may differ from the methodology utilized by other equity REITs to calculate FFO and, therefore, may not be comparable to such other REITs.

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

|  | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|--|--------------------------------|------------------|------------------------------|-------------------|
|  | 2005                           | 2004             | 2005                         | 2004              |
| Net income available to common stockholders diluted                    | \$ 35,477                      | \$ 27,927        | \$ 68,978                    | \$ 60,309         |
| Deduct:  |                                |                  |                              |                   |
| Minority interest in income of consolidated partnership                | (251)                          | (286)            | (533)                        | (546)             |
| Net income available to common stockholders - basic                    | 35,226                         | 27,641           | 68,445                       | 59,763            |
| Add:   |                                |                  |                              |                   |
| Depreciation and amortization  |                                |                  |                              |                   |
| Continuing operations real estate assets                               | 24,629                         | 21,403           | 49,908                       | 42,162            |
| Discontinued operations real estate assets                             | 237                            | 490              | 645                          | 995               |
| Pro rata share of joint venture real estate assets                     | 627                            | 268              | 1,192                        | 641               |
| Deduct:  |                                |                  |                              |                   |
| Gain on the sale of real estate (1)                                    |                                |                  |                              | (1,217)           |
| (Gain) loss on the sale of discontinued operations (1)                 | (4,611)                        | 4,909            | (8,343)                      | 3,962             |
| Pro rata share of joint venture (gain) loss on sale of real estate (1) |                                | (4)              |                              | 421               |
| <b>Funds from operations basic</b>                                     | <b>56,108</b>                  | <b>54,707</b>    | <b>111,847</b>               | <b>106,727</b>    |
| Add:   |                                |                  |                              |                   |
| Minority interest in income of consolidated partnership                | 251                            | 286              | 533                          | 546               |
| <b>Funds from operations diluted</b>                                   | <b>\$ 56,359</b>               | <b>\$ 54,993</b> | <b>\$ 112,380</b>            | <b>\$ 107,273</b> |
| Net cash provided by operating activities                              | \$ 68,316                      | \$ 51,592        | \$ 124,412                   | \$ 109,147        |
| Net cash used in investing activities                                  | (66,986)                       | (40,281)         | (102,708)                    | (125,129)         |
| Net cash (used in) provided by financing activities                    | (16,921)                       | (10,799)         | (20,635)                     | 23,178            |

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

### Liquidity and Capital Resources

As of June 30, 2005, we had approximately \$12.1 million in available cash, cash equivalents and marketable securities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. Therefore, as a general matter, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital. As of June 30, 2005, approximately \$115.0 million was available for draw under the Revolving Facility.

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

As discussed in Note 13, on July 19, 2005, we entered into definitive agreements to complete the Galileo Transactions. The closing of the Galileo Transactions, which is subject to various conditions, is expected to occur in the third quarter of 2005. The potential impact of the Galileo Transactions on our liquidity, both short-term and long-term, is discussed throughout the following sections.

### *Short-Term Liquidity Needs*

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

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



tenants to make their rental payments. We believe that the nature of the properties in which we typically invest primarily community and neighborhood shopping centers provides a more stable revenue flow in uncertain economic times because, even in difficult economic times, consumers still need to purchase basic living essentials such as food and soft goods. However, general economic downturns, or economic downturns in one or more markets in which we own properties, still may adversely impact the ability of our tenants to make rental payments and our ability to re-lease space on favorable terms as leases expire. In either of these instances, our cash flow would be adversely affected.

On February 21, 2005, Winn-Dixie Stores filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. On June 21, 2005, Winn-Dixie Stores announced its intention to sell or close approximately 326 store locations. Prior to the bankruptcy filing, Winn-Dixie Stores leased space at 22 of our shopping centers. Since the bankruptcy filing, Winn-Dixie Stores has rejected the leases at three locations. As a result, we currently have 19 Winn-Dixie Stores leases in our portfolio, of which eight are expected to be sold or closed, including one lease at a property held in a joint venture in which we have a 10% interest.

The 19 non-rejected lease locations, which include three leases at properties held in joint ventures in which we have a 10% interest, are all currently physically occupied and aggregate (including our pro rata share of the joint venture properties) approximately 0.8 million square feet of gross leasable area and represent approximately \$4.8 million of annual base rent, or approximately \$6.34 per square foot. This represents approximately 1.2% of our total annual base rent.

Under federal bankruptcy laws, Winn-Dixie Stores can affirm or reject its 19 remaining leases with us. It could also seek to receive rent reductions or deferrals or other lease modifications from us. At this time, Winn-Dixie Stores has announced that it expects to sell or close eight of its 19 remaining leases, but has not announced its plans with respect to the other 11 leases. In the event that leases are terminated, we would seek to re-lease those spaces to new tenants. In some cases, we believe we could re-lease the space currently occupied by Winn-Dixie Stores on terms that would be at least as favorable as the current lease with Winn-Dixie Stores. In other cases, however, we may not be able to achieve the rental rates that Winn-Dixie Stores is currently paying. It may also take a significant amount of time to re-lease any space vacated by Winn-Dixie Stores, during which period we would not be collecting any rent for that space. In addition, if Winn-Dixie Stores terminates additional leases, other tenants at the effected properties may have the right to terminate their leases with us, or to pay less rent than they are currently paying.

If Winn-Dixie Stores terminates a substantial number of leases with us, or if Winn-Dixie Stores receives substantial rent reductions or deferrals, it will adversely affect our rental revenues, and the impact may be material. In addition, Winn-Dixie Stores' termination of leases or closure of stores could result in lease terminations or reductions in rent by other tenants in the same shopping centers, the impact of which could be material to us.

We do not believe that there are any other pending tenant bankruptcies that are likely to materially affect our rental revenues.

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

In some cases, we have invested as a co-venturer or partner in the development or redevelopment of new properties instead of developing projects directly. Pursuant to the terms of four of our joint venture agreements, we have agreed to contribute up to an aggregate of \$35.5 million of additional capital that may be required by such joint ventures. We expect to fund the additional capital required by these joint ventures either out of excess cash from operations, or through draws on the Revolving Facility.

During the six months ended June 30, 2005, we completed six redevelopment projects, the aggregate cost of which (including costs incurred in prior years on these projects) was approximately \$16.2 million. Our current redevelopment pipeline is comprised of 37 redevelopment projects, the aggregate future cost of which is expected to be approximately \$187.8 million. We also redevelop properties held in our joint ventures and our current pipeline for such properties is comprised of two redevelopment projects, the aggregate future cost of which is expected to be approximately \$53.9 million. We also have an outparcel development project underway, the aggregate future cost of

which is expected to be approximately \$1.0 million. In addition, we currently have two new development projects underway, the aggregate future cost of which is expected to be \$21.3 million. We intend on financing our redevelopment, joint venture redevelopment, outparcel development and new development projects through cash from operations or draws on the Revolving Facility.

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

We have established a stock repurchase program under which we may repurchase up to \$75.0 million of our outstanding common stock through periodic open market transactions or through privately negotiated transactions. We have not repurchased any shares of common stock under this program in 2005, nor did we repurchase any shares of common stock in 2004. In light of current market conditions, we do not anticipate effecting additional stock repurchases in the near future, although we could reevaluate this determination at any time based on market conditions.

We have also established a repurchase program under which we may repurchase up to \$125.0 million of our outstanding preferred stock and public debt through periodic open market transactions or through privately negotiated transactions. As of June 30, 2005, no purchases had been made under this program.

The current quarterly dividend on our common stock is \$0.4125 per share. As a result of the Galileo Transactions, we currently expect to pay a special cash distribution of \$3.00 per common share, aggregating approximately \$316.0 million, shortly after the closing of the transactions. Additionally, we expect to reduce our annualized dividend from \$1.65 per common share to \$1.25 per common share. Such reduction would be effective with our third quarter dividend. We also pay regular quarterly dividends on our preferred stock. The maintenance of these dividends is subject to various factors, including the discretion of our Board of Directors, our ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income be distributed to stockholders. We also make regular quarterly distributions on units in a partnership that we control.

In addition, under the Revolving Facility, the Secured Term Loan, and the Unsecured Term Loan we are restricted from paying common stock dividends that would exceed 95% of our Funds From Operations (as defined in the applicable debt agreement) during any four-quarter period.

#### *Long-Term Liquidity Needs*

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

have a material adverse effect on our ability to access these capital sources.

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

Based on an internal evaluation, the estimated value of our properties is above the outstanding amount of mortgage debt encumbering the properties. Therefore, at this time, we believe that additional financing could be obtained, either in the form of mortgage debt or additional unsecured borrowings, and without violating the financial covenants contained in our existing debt agreements. In January 2005, we issued \$100.0 million of unsecured notes in the 2005 Debt Offering, net proceeds of which were used to repay a portion of the borrowings outstanding under the Revolving Facility. In April 2005, we entered into the Unsecured Term Loan. Net proceeds from the Unsecured Term Loan were used to repay \$100.0 million of our 7.75% medium-term notes that were scheduled to mature on April 6, 2005, as well as to repay a portion of the amount outstanding under the Revolving Facility. In July 2005, we amended the Unsecured Term Loan to increase the amount available under this facility from \$150.0 million to \$200.0 million (the Unsecured Term Loan Amendment) and subsequently borrowed the additional \$50.0 million that was made available.

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

We have selectively effected asset sales to generate cash proceeds over the last two years. During the first six months of 2005, we generated approximately \$18.1 million in gross proceeds through the culling of non-core and non-strategic properties and approximately \$8.1 million from the disposition of a property held through a joint venture. During the 2004 fiscal year, we generated an aggregate of approximately \$57.9 million in gross proceeds, including approximately \$8.5 million represented by a purchase money note issued in connection with the sale of Factory Merchants Barstow, through the culling of non-core and non-strategic properties and the transfer of one property to a joint venture. In addition, we generated approximately \$4.3 million in gross proceeds from the disposition of certain properties held through joint ventures. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. Our ability to sell properties in the future in order to raise cash will necessarily be limited if market conditions make such sales unattractive.

The following table summarizes all of our known contractual cash obligations, excluding interest, to pay third parties as of June 30, 2005 (based on a calendar year, dollars in thousands):

| Contractual Cash Obligations | Total        | Less than 1 year | 1- 3 years | 3 - 5 years | More than 5 years |
|------------------------------|--------------|------------------|------------|-------------|-------------------|
| Long-Term Debt (1)           | \$ 2,048,567 | \$ 170,017       | \$ 750,427 | \$ 381,550  | \$ 746,573        |
| Capital Lease Obligations    | 28,061       | 180              | 791        | 918         | 26,172            |
| Operating Leases             | 51,437       | 1,167            | 5,209      | 4,836       | 40,225            |
| Total                        | \$ 2,128,065 | \$ 171,364       | \$ 756,427 | \$ 387,304  | \$ 812,970        |

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

On April 5, 2005, we entered into the Unsecured Term Loan. The Unsecured Term Loan matures on the earlier of October 5, 2005 or the closing of the Galileo Transactions and, as of April 5, 2005, bore interest at LIBOR plus 85 basis points. Proceeds from the Unsecured Term Loan were used to repay \$100.0 million of our 7.75% medium-term notes that were scheduled to mature in April 2005, as well as to repay a portion of the amount outstanding under the Revolving Facility. On July 13, 2005, following the entry into the Unsecured Term Loan Amendment, we drew an additional \$50.0 million under the Unsecured Term Loan. As a result, a total of \$200.0 million is outstanding under the Unsecured Term Loan. At the time of the closing of the Galileo Transactions, we anticipate repaying the Unsecured Term Loan, including the additional draw, approximately \$101.0 million of outstanding mortgage indebtedness and approximately \$239.0 million of the amount outstanding under the Revolving Facility. We anticipate repaying the balance of the 2005 contractual cash obligations (which includes approximately \$20.0 million of mortgages and scheduled amortization) either through draws under the Revolving Facility, with proceeds

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

generated through the sale of assets, with proceeds generated through the issuance of public or private secured or unsecured debt, or a combination thereof.

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

The following table summarizes certain terms of our existing credit facilities as of June 30, 2005 (dollars in thousands):

| Loan                    | Amount Available<br>to be Drawn | Amount Drawn as<br>of June 30, 2005 | Current Interest<br>Rate (1) | Maturity Date   |
|-------------------------|---------------------------------|-------------------------------------|------------------------------|-----------------|
| Unsecured Term Loan (2) | \$ 150,000                      | \$ 150,000                          | LIBOR plus 85 bp             | October 5, 2005 |
| Revolving Facility      | 350,000                         | 235,000                             | LIBOR plus 65 bp (3)         | June 29, 2007   |
| Secured Term Loan       | 150,000                         | 150,000                             | LIBOR plus 85 bp             | June 29, 2007   |
| Total                   | \$ 650,000                      | \$ 535,000                          |                              |                 |

- 
- (1) We incur interest using a 30-day LIBOR rate, which was 3.34% at June 30, 2005.
- (2) On July 13, 2005, we amended the Unsecured Term Loan and increased the amount available for draw under this facility to \$200.0 million. This facility matures on the earlier of October 5, 2005 or the closing of the Galileo Transactions.
- (3) We also incur an annual facility fee of 20 basis points on this facility.

The Unsecured Term Loan, the Revolving Facility and the Secured Term Loan require that we maintain certain financial coverage ratios and other debt covenants. As of June 30, 2005, these coverage ratios included:

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

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately \$1.3 billion

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

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

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

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

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

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

On July 19, 2005, we entered into amendments to the financial coverage ratios and other debt covenants as they pertain to the Credit Agreements. The amendments to each of the Credit Agreements were substantially identical.

As part of the amendments:

The covenants in the Credit Agreements relating to asset sales by us were amended to permit us to sell or otherwise transfer assets so long as the transfers do not exceed (i) with respect to 2005, 30% of the total book value of all of our property determined as of December 31, 2004, and (ii) with respect to each year thereafter, 25% of the total book value of all of our property determined as of last day of the preceding year (the Asset Sale Covenants );

The covenants in the Credit Agreements relating to permitted dividends by us were amended to specifically provide that the special dividend expected to be distributed to our stockholders following the Galileo Transactions is permitted under the terms of the Credit Agreements (the Dividend Covenants );

The covenants in the Credit Agreements relating to our minimum tangible net worth were amended to provide that our minimum net worth requirement will be reduced from \$1.278 billion to \$1.225 billion (plus 80% of the net proceeds received by us from future issuances of capital stock) (the Minimum Net Worth Covenants );



The covenants in the Credit Agreements that set forth the maximum ratio of our total unsecured debt to unencumbered asset value were amended to increase the ratio from 55% to 57.5% (the Unsecured Debt to Unencumbered Asset Value Covenants ); and

The capitalization rates used to calculate the value of our assets for purposes of certain ratio tests (i.e., in calculating our operating property value and unencumbered asset value) were decreased from 9.0% to 8.5% (the Capitalization Rates ).

The changes to the Asset Sale Covenants, the Dividend Covenants and the Minimum Net Worth Covenants will be effective only upon the closing of the Galileo Transactions. The changes to the Unsecured Debt to Unencumbered Asset Value Covenants and the Capitalization Rates are effective immediately.

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

As of June 30, 2005, we had approximately \$1.0 billion of indebtedness outstanding, excluding the impact of unamortized discounts, under three public indentures, having a weighted average interest rate of 5.8%. These indentures also contain covenants that require us to maintain certain financial coverage ratios. These covenants are generally less onerous than the covenants contained in our existing credit facilities, as described above.

As of June 30, 2005, we were in compliance with all of the financial covenants under our existing credit facilities and public indentures, and we believe that we will continue to remain in compliance with these covenants. However, if our properties do not perform as expected, or if unexpected events occur that require us to borrow additional funds, compliance with these covenants may become difficult and may restrict our ability to pursue certain business initiatives. In addition, these financial covenants may restrict our ability to pursue particular acquisition transactions (for example, acquiring a portfolio of properties that is highly leveraged) and could significantly impact our ability to pursue growth initiatives.

In addition to our existing credit facilities and public indebtedness, we had approximately \$538.6 million of mortgage debt outstanding, excluding the impact of unamortized premiums, as of June 30, 2005, having a weighted average interest rate of 7.4% per annum.

#### *Galileo Transactions*

As discussed above, the closing of the Galileo Transactions, which is subject to various conditions, is expected to occur in the third quarter of 2005. Net cash proceeds from the Galileo Transactions, after the repayment of secured debt, the acquisitions of the asset management fee stream and property management rights and transaction costs, are expected to be approximately \$754.2 million. Initially, we expect to use a portion of the net proceeds to pay down approximately \$438.5 million of additional outstanding indebtedness, including the repayment of the

## Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

Unsecured Term Loan. The remaining approximately \$315.7 million is expected to be paid out to stockholders of the Company as a special cash dividend of \$3.00 per share of common stock.

The repayment of outstanding indebtedness upon the closing of the Galileo Transactions will significantly improve our financial flexibility and credit profile. We believe that we will be able to incur additional indebtedness in the future, which will in turn enable us to fund future growth opportunities. Over the longer term, net proceeds from the Galileo Transactions will be further reinvested in a combination of redevelopments of existing assets, new developments and new acquisition opportunities across the spectrum of institutional quality to value-added shopping centers, as well as the potential repurchase of our outstanding common stock. Finally, the asset management fee stream acquired in the transactions will provide a steady stream of cash which may serve as another source of funds to satisfy our short-term and long-term liquidity needs.

The Galileo Transactions are subject to certain customary closing conditions and, as such, there can be no assurance that the transactions will be consummated in the third quarter of 2005, or at all. If we are unable to close the Galileo Transactions on a timely basis, or at all, we will be subject to certain short-term liquidity requirements that will need to be satisfied through alternative means. In particular, the Unsecured Term Loan, which is scheduled to mature on October 5, 2005, will need to be repaid. If necessary, we believe that we can satisfy this requirement

through the incurrence of new debt (through public offerings of unsecured debt or the private incurrence of secured or unsecured debt), borrowings under the Revolving Facility and/or sales of common or preferred stock.

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

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

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

The following is a brief summary of the unconsolidated joint venture obligations that we have as of June 30, 2005, and in which we expect to make additional capital contributions to the joint venture:

*CA New Plan Acquisition Fund, LLC.* This joint venture was created on June 1, 2005, in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below) for the acquisition, redevelopment and development of real estate assets. Under the terms of the joint venture, we have a 10% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum of \$4.2 million, of which approximately \$25,000 had been contributed by us as of June 30, 2005. We anticipate contributing the remaining \$4.2 million during the remainder of 2005 and through 2007. As of June 30, 2005, the joint venture did not own any properties and had no loans outstanding. As of June 30, 2005, the book value of our investment in CA New Plan Acquisition Fund, LLC was approximately \$25,000.

*CA New Plan Venture Direct Investment Fund, LLC.* This joint venture was created on June 1, 2005, in conjunction with the restructuring of CA New Plan Venture Fund, LLC (see below). Under the terms of the joint venture, we have a 10% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum of \$0.4 million, of which approximately \$0.1 million had been contributed by us as of June 30, 2005. We anticipate contributing the remaining \$0.3 million during the remainder of 2005 and throughout 2006. The joint venture owned six retail properties as of June 30, 2005. The joint venture had loans outstanding of approximately \$54.2 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in CA New Plan Venture Direct Investment Fund, LLC was approximately \$0.9 million.

*CA New Plan Venture Fund, LLC.* On June 1, 2005, this joint venture was restructured to create two additional joint ventures, CA New Plan Acquisition Fund, LLC, and CA New Plan Venture Direct Investment Fund, LLC. As a result of the restructuring, six stabilized assets were transferred from CA New Plan Venture Fund, LLC to CA New Plan Venture Direct Investment Fund, LLC, and two assets were sold, resulting in the joint venture owning eight

operating retail properties and one retail property under redevelopment as of June 30, 2005. Under the terms of the restructured joint venture, we continue to have a 10% interest in the venture, and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$0.9 million, of which approximately \$0.4 million had been contributed by us as of June 30, 2005. We anticipate contributing the remaining \$0.5 million during the remainder of 2005. The joint venture had loans outstanding of approximately \$66.8 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in CA New Plan Venture Fund, LLC was approximately \$4.8 million.

*NPI&G Institutional Retail Company, LLC.* In November 2003, we formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned nine retail properties as of June 30, 2005. Under the terms of this joint venture, we have a 20% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$30.0 million, of which we have contributed approximately \$20.5 million as of June 30, 2005. We anticipate contributing the remaining \$9.5 million during the remainder of 2005. The joint venture had loans outstanding of approximately

\$185.3 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in NP/I&G Institutional Retail Company, LLC was approximately \$20.5 million.

In addition, the following is a brief summary of the other joint venture obligations that we have as of June 30, 2005. Although we have agreed to contribute certain amounts of capital that may be required by these joint ventures, as more fully described below, we do not expect that any significant capital contributions to the following joint ventures will be required.

*Arapahoe Crossings, L.P.* We, together with a U.S. partnership comprised substantially of foreign investors, have an interest in a joint venture which owns Arapahoe Crossings, a community shopping center located in Aurora, Colorado. Under the terms of this joint venture, we have a 30% interest and we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately \$48.9 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in Arapahoe Crossings, L.P. was approximately \$6.6 million.

*BPR Land Partnership, L.P.* We have a 50% interest in a joint venture that owns approximately 30.1 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had no loans outstanding as of June 30, 2005. As of June 30, 2005, the book value of our investment in BPR Land Partnership, L.P. was approximately \$1.1 million.

*BPR South, L.P.* We have a 50% interest in a joint venture that owns approximately 8.4 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had no loans outstanding as of June 30, 2005. As of June 30, 2005, the book value of our investment in BPR South, L.P. was approximately \$0.9 million.

*BPR Shopping Center, L.P.* We have a 25% interest in a venture that owns The Centre at Preston Ridge, a community shopping center located in Frisco, Texas. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately \$68.9 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in BPR Shopping Center, L.P. was approximately \$3.7 million.

*Westgate Mall, LLC.* We, together with Transwestern Investment Company and The Richard E. Jacobs Group, have an interest in a joint venture that was formed for the specific purpose of acquiring and redeveloping Westgate Mall, an enclosed mall located on 55 acres of land in Fairview Park, Ohio. The joint venture plans to redevelop the mall into a large community shopping center. Under the terms of this joint venture, we have a 10% interest in the venture and we have agreed to contribute our pro rata share of any capital that might be required by the joint venture.

The joint venture had loans outstanding of approximately \$20.8 million as of June 30, 2005. As of June 30, 2005, the book value of our investment in Westgate Mall, LLC was approximately \$0.8 million.

In addition, as of June 30, 2005, we had investments in another joint venture (BPR West, L.P.) which has been included as a consolidated entity in our financial statements in accordance with the provisions of FIN 46.

As discussed elsewhere, upon closing of the Galileo Transactions, we will own an approximate 5% interest in the US Partnership. We expect to account for this interest using the equity method.

*Other Funding Obligations*

In addition to the joint venture obligations described above, we also had the following contingent contractual obligations as of June 30, 2005, none of which we believe will materially adversely affect us:

*Letters of Credit.* We have arranged for the provision of four separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, we will be obligated to reimburse the providing bank for the amount of the draw. As of June 30, 2005, there was

no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately \$4.5 million.

*Non-Recourse Debt Guarantees.* Under certain of our non-recourse loans and those of our joint ventures, we could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of June 30, 2005, we had mortgage loans outstanding of approximately \$558.4 million and our joint ventures had mortgage loans outstanding of approximately \$378.5 million.

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

| Year                        |    |        |
|-----------------------------|----|--------|
| 2005 (remaining six months) | \$ | 1,167  |
| 2006                        |    | 2,390  |
| 2007                        |    | 2,819  |
| 2008                        |    | 2,437  |
| 2009                        |    | 2,399  |
| Thereafter                  |    | 40,225 |

For a discussion of other factors which may adversely affect our liquidity and capital resources, please see the section titled "Risk Factors" in Item I of our Annual Report on Form 10-K for the year ended December 31, 2004.

### **Inflation**

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

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

As of June 30, 2005, we had approximately \$24.5 million of outstanding floating rate mortgages. We also had approximately \$535.0 million outstanding under floating rate credit facilities. We do not believe that the interest rate risk represented by our floating rate debt is material as of June 30, 2005, in relation to our approximately \$2.1 billion of outstanding total debt, our approximately \$4.0 billion of total assets and our approximately \$5.2 billion total market capitalization as of that date. In addition, as discussed below, we have converted \$65.0 million of fixed rate borrowings to floating rate borrowings through the use of hedging agreements.

As of June 30, 2005, we had entered into five hedging agreements: two reverse arrears swap agreements and three forward starting swaps. The two reverse arrears swap agreements effectively convert the interest rate on



\$65.0 million of the debt from a fixed rate to a blended floating rate of 30 basis points over the six-month LIBOR rate. These two swaps will terminate on February 1, 2011.

During the year ended December 31, 2004, we entered into seven 10-year forward starting interest rate swap agreements for an aggregate of approximately \$200.0 million in notional amount. These derivative instruments were expected to be used to hedge the risk of changes in interest cash outflows on anticipated fixed rate financings by effectively locking the 10-year LIBOR swap rate. Concurrent with the pricing of the 2005 Debt Offering, we settled four of the seven 10-year forward starting interest rate swap agreements with an aggregate of approximately \$100.0 million in notional amount for an aggregate cost of approximately \$2.5 million. The effect of such payment was deferred and will be amortized into earnings as an increase in effective interest expense over the term of the fixed rate borrowing. The remaining three swaps will terminate on April 6, 2015. The gain or loss on the remaining three forward starting interest rate swap agreements will be deferred in accumulated other comprehensive income and will be amortized into earnings as an increase/decrease in effective interest expense during the same period or periods in which the hedged transaction affects earnings.

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

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$6.2 million. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately \$6.2 million. This assumes that the amount outstanding under our variable rate debt remains at approximately \$624.5 million (including the impact of \$65.0 million in reverse arrears swap agreements), the balance as of June 30, 2005, and does not consider the effects of debt transactions that may take place in connection with the Galileo Transactions. If market rates of interest increase by 1%, the fair value of our fixed rate debt would decrease by approximately \$67.6 million. If market rates of interest decreased by 1%, the fair value of our fixed rate debt would increase by approximately \$79.0 million. This assumes that our total debt outstanding remains at approximately \$2.1 billion, the balance as of June 30, 2005, and does not consider the effects of debt transactions that may take place in connection with the Galileo Transactions.

As of June 30, 2005, we had no material exposure to market risk (including foreign currency exchange risk, commodity price risk or equity price risk).

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

The 2005 annual meeting of stockholders was held on May 11, 2005. Proxies for the meeting were solicited by the Company pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended; there was no solicitation in opposition to management's nominees as listed in the proxy statement and all of such nominees were elected.

Proposal One: Election of Directors.

- a. 91,749,424 votes were cast for the election of Raymond H. Bottorf as a Director; 1,517,808 votes were withheld.
- b. 90,830,599 votes were cast for the election of Matthew Goldstein as a Director; 2,436,633 votes were withheld.
- c. 92,066,493 votes were cast for the election of Gregory White as a Director; 1,200,739 votes were withheld.

**Item 6. Exhibits**

- 10.1\* Consulting Agreement, dated as of May 6, 2005, by and between the Company and Scott MacDonald, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated May 10, 2005.
- 10.2 Term Loan Agreement, dated as of April 5, 2005, by and among the Company, Citicorp North America, Inc., as administrative agent, and the other lenders party thereto.
- 10.3 First Amendment to Term Loan Agreement, dated as of July 13, 2005, by and among the Company, Citicorp North America, Inc., as administrative agent, and the other lenders party thereto.
- 12.1 Ratio of Earnings to Fixed Charges.
- 12.2 Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: NEW PLAN EXCEL REALTY TRUST INC - Form 10-Q

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

---

\* Incorporated herein by reference as above indicated.

**SIGNATURES**

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

Dated: August 8, 2005

NEW PLAN EXCEL REALTY TRUST, INC.

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

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