

NEW PLAN EXCEL REALTY TRUST INC  
Form 10-Q  
August 05, 2004

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-Q

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004  
OR**

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

**FOR THE TRANSITION PERIOD FROM            TO**

Commission file number 1-12244

## NEW PLAN EXCEL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

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

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

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

(Address of Principal Executive Office) (Zip Code)

**212-869-3000**

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

Registrant's Telephone Number

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. **YES**  **NO**

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

**YES**  **NO**

The number of shares of common stock of the Registrant outstanding on July 28, 2004 was 100,251,668.

---

### Forward-Looking Statements

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

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

the competitive environment in which we operate

property management risks

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

possible future downgrades in our credit rating

the level and volatility of interest rates

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

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

governmental approvals, actions and initiatives

environmental/safety requirements and costs

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

risks of joint venture activities

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

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

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

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2004 and 2003

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(Unaudited)		(Unaudited)	
<b>Rental revenues:</b>				
Rental income	\$ 96,624	\$ 92,067	\$ 192,839	\$ 184,188
Percentage rents	1,495	1,956	4,235	3,717
Expense reimbursements	24,780	26,025	51,002	51,909
Total rental revenues	122,899	120,048	248,076	239,814
<b>Expenses:</b>				
Operating costs	19,881	23,016	43,890	45,791
Real estate and other taxes	15,181	14,609	30,161	30,095
Depreciation and amortization	21,823	18,615	42,989	37,307
Provision for doubtful accounts	2,405	1,960	4,168	3,686
General and administrative	5,173	4,204	10,166	8,434
Total expenses	64,463	62,404	131,374	125,313
Income before real estate sales, impairment of real estate, minority interest and other income and expenses	58,436	57,644	116,702	114,501
<b>Other income and expenses:</b>				
Interest, dividend and other income	1,850	1,932	4,388	5,292
Equity in income of unconsolidated ventures	559	1,188	789	1,661
Interest expense	(26,536)	(24,849)	(52,937)	(50,850)
Gain on sale of real estate			1,217	
Impairment of real estate		(1,124)		(1,124)
Minority interest in income of consolidated partnership and joint ventures	(476)	(375)	(736)	(776)
Income from continuing operations	33,833	34,416	69,423	68,704
<b>Discontinued operations:</b>				
(Loss) income from discontinued operations (Note 5)	(917)	(1,887)	890	(986)
Net income	\$ 32,916	\$ 32,529	\$ 70,313	\$ 67,718
Preferred dividends	(5,275)	(5,753)	(10,550)	(10,612)
Premium on redemption of preferred stock		(630)		(630)
Net income available to common stock basic	27,641	26,146	59,763	56,476
Minority interest in income of consolidated partnership	286	375	546	776
Net income available to common stock diluted	\$ 27,927	\$ 26,521	\$ 60,309	\$ 57,252

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

Basic earnings per common share:						
Income from continuing operations	\$	0.29	\$	0.29	\$ 0.59	\$ 0.59
Discontinued operations		(0.01)		(0.02)	0.01	(0.01)
Basic earnings per share	\$	0.28	\$	0.27	\$ 0.60	\$ 0.58
Diluted earnings per common share:						
Income from continuing operations	\$	0.28	\$	0.29	\$ 0.58	\$ 0.58
Discontinued operations		(0.01)		0.02	0.01	(0.01)
Diluted earnings per share	\$	0.27	\$	0.27	\$ 0.59	\$ 0.57
Average shares outstanding	basic	100,159		97,112	99,789	97,025
Average shares outstanding	diluted	102,272		99,953	102,142	99,750
Dividends per common share	\$	0.41250	\$	0.41250	\$ 0.82500	\$ 0.82500
Other comprehensive income:						
Net income	\$	32,916	\$	32,529	\$ 70,313	\$ 67,718
Unrealized (loss) gain on available-for-sale securities		(282)		124	(159)	305
Realized gain (loss) on interest risk hedges, net		41		(784)	81	(688)
Unrealized gain on interest risk hedges, net		4,048			1,549	
Comprehensive income	\$	36,723	\$	31,869	\$ 71,784	\$ 67,335

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, 2004 and December 31, 2003

(In thousands, except par value amounts)

	June 30, 2004	December 31, 2003
	(Unaudited)	
<b>ASSETS</b>		
Real estate:		
Land	\$ 871,903	\$ 832,479
Building and improvements	2,965,010	2,822,138
Accumulated depreciation and amortization	(397,661)	(360,580)
Net real estate	3,439,252	3,294,037
Real estate held for sale	15,088	17,668
Cash and cash equivalents	12,524	5,328
Restricted cash	16,611	23,463
Marketable securities	2,756	2,915
Receivables:		
Trade, net of allowance for doubtful accounts of \$17,329 and \$16,950 at June 30, 2004 and December 31, 2003, respectively	37,279	42,713
Deferred rent receivable, net of allowance of \$4,562 and \$5,445 at June 30, 2004 and December 31, 2003, respectively	28,020	24,806
Other, net	19,482	12,530
Mortgages and notes receivable	950	39,637
Prepaid expenses and deferred charges	45,699	35,320
Investments in/advances to unconsolidated ventures	28,523	38,958
Intangible assets	29,414	3,201
Other assets	21,173	18,020
Total assets	\$ 3,696,771	\$ 3,558,596
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Mortgages payable, including unamortized premium of \$15,210 and \$16,965 at June 30, 2004 and December 31, 2003, respectively	\$ 553,122	\$ 558,278
Notes payable, net of unamortized discount of \$5,199 and \$3,116 at June 30, 2004 and December 31, 2003, respectively	1,043,753	898,164
Credit facilities	281,000	291,000
Capital leases	28,401	28,562
Dividends payable	46,622	45,695
Other liabilities	92,321	102,793
Tenant security deposits	10,675	10,096
Total liabilities	2,055,894	1,934,588
Minority interest in consolidated partnership	23,973	37,865
Commitments and contingencies		
Stockholders equity:	10	10

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

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, 2004 and December 31, 2003; 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, 2004 and December 31, 2003

Common stock, \$.01 par value, 250,000 shares authorized 100,235 and 97,980 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	1,002	979
Additional paid-in capital	1,944,150	1,889,338
Accumulated other comprehensive income	4,256	2,785
Accumulated distribution in excess of net income	(332,514)	(306,969)
Total stockholders' equity	1,616,904	1,586,143
Total liabilities and stockholders' equity	\$ 3,696,771	\$ 3,558,596

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, 2004 and 2003

(Unaudited, in thousands)

	June 30, 2004	June 30, 2003
Cash flows from operating activities:		
Net income	\$ 70,313	\$ 67,718
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	43,916	38,059
Amortization of net premium/discount on mortgages and notes payable	(1,388)	(1,382)
Amortization of deferred debt and loan acquisition costs	1,738	964
Amortization of stock options	485	
Gain on sale of real estate, net	(1,217)	
Gain on sale of discontinued operations	(445)	(3,566)
Minority interest in income of consolidated partnership	736	776
Impairment of real estate assets	43	8,029
Equity in income of unconsolidated ventures	(789)	(1,661)
Changes in operating assets and liabilities, net:		
Change in trade receivables	2,718	(14,003)
Change in deferred rent receivables	(3,174)	(1,451)
Change in other receivables	(5,159)	25,137
Change in other liabilities	(975)	(15,706)
Change in tenant security deposits	146	582
Change in sundry assets and liabilities	(4,798)	(9,790)
Net cash provided by operating activities	102,150	93,706
Cash flows from investing activities:		
Real estate acquisitions and building improvements	(52,186)	(31,589)
Proceeds from real estate sales, net	30,207	28,934
Acquisition, net of cash and restricted cash received	(116,350)	(75,392)
Change in restricted cash	6,997	35,366
Repayments of mortgage notes receivable	26,525	(11,329)
Leasing commissions paid	(6,053)	(3,617)
Cash from joint venture consolidation (Note 2)	665	
Cash paid for joint venture investment	(9,748)	
Proceeds from sale of joint venture interest	3,870	
Advances for joint venture note receivable	(8,331)	
Capital contributions to joint ventures	(1,557)	(1,353)
Distributions from joint ventures	7,829	2,997
Net cash used in investing activities	(118,132)	(55,983)
Cash flows from financing activities:		
Principal payments of mortgages and notes payable	(33,837)	(125,429)
Proceeds from medium-term note issuance, net	149,114	
Cash received from rate lock swap	775	
Cash paid for settlement of a reverse arrears swap	(1,275)	
Dividends paid	(89,520)	(90,718)
Proceeds from credit facility borrowing	260,000	385,000

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

Repayment of credit facility	(270,000)	(335,000)
Repayment of notes payable, other		(28,349)
Financing fees	(4,038)	(1,693)
Redemption of limited partnership units		(29)
Proceeds from exercise of stock options	11,279	5,116
Distributions paid to minority partners	(2,698)	(815)
Repayment of loans receivable for the purchase of common stock	255	5,778
Proceeds from preferred stock offering, net		193,192
Redemption of preferred stock, net		(157,500)
Proceeds from convertible debt offering, net		113,850
Proceeds from dividend reinvestment plan	3,123	
Net cash provided by (used in) financing activities	23,178	(36,597)
Net increase in cash and cash equivalents	7,196	1,126
Cash and cash equivalents at beginning of period	5,328	8,528
Cash and cash equivalents at end of period	\$ 12,524	\$ 9,654
Supplemental Cash Flow Disclosure, including Non-Cash Activities:		
Cash paid for interest	\$ 55,312	\$ 53,773
Capitalized interest	3,016	1,963
State and local taxes paid	266	1,240
Mortgages assumed in acquisition	30,275	12,636
Partnership units issued in acquisition	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. and its subsidiaries (collectively, the Company) are operated as a self-administered, self-managed real estate investment trust ( REIT ). The principal business of the Company is the ownership and management of community and neighborhood shopping centers throughout the United States.

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, 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 Securities and Exchange Commission (the SEC ) and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States ( GAAP ). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income and comprehensive income for the three and six months ended June 30, 2004 are not necessarily indicative of the results expected for the full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

Net Earnings per Share of Common Stock

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

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

### Cash Equivalents

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

### Restricted Cash

Restricted cash consists primarily of cash held in escrow accounts for deferred maintenance, capital improvements, environmental expenditures, taxes, insurance, operating expenses and debt service as required by

certain loan agreements. Substantially all restricted cash is invested in money market mutual funds and carried at market value.

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of \$17.3 million and \$17.0 million as of June 30, 2004 and December 31, 2003, respectively.

Real Estate

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

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

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

Business Combinations

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

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

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

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

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The

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

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

#### Long-Lived Assets

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

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

#### Employee Loans

Prior to 2001, the Company had made loans to officers, directors and employees primarily for the purpose of purchasing the Company's common stock. These loans are demand and term notes bearing interest at rates ranging from 5.0% to 8.4%. Interest is payable quarterly. Loans made for the purchase of common stock are reported as a deduction from stockholders' equity. At June 30, 2004 and December 31, 2003, the Company had aggregate loans to employees of approximately \$0.8 million and \$1.1 million, respectively.

#### Investments in /Advances to Unconsolidated Ventures

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

#### Deferred Leasing and Loan Origination Costs

Costs incurred in obtaining tenant leases (including internal leasing costs) are amortized using the straight-line method over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Costs incurred in obtaining long-term financing are amortized and charged to interest expense over the terms of the related debt agreements, which approximates the effective interest method.

Internal Leasing Costs

Effective January 1, 2002, the Company commenced capitalizing internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs*



*of Leases.* At June 30, 2004 and December 31, 2003, approximately \$12.5 million and \$8.9 million of gross internal leasing costs had been capitalized, respectively. At June 30, 2004 and December 31, 2003, the net carrying value of internal leasing costs was approximately \$10.4 million and \$7.8 million, respectively. For the three months ended June 30, 2004 and 2003, approximately \$0.7 million and \$0.2 million of capitalized costs had been amortized, respectively. For the six months ended June 30, 2004 and 2003, approximately \$1.1 million and \$0.4 million of capitalized costs had been amortized, respectively.

#### Derivative/Financial Instruments

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

#### Self-Insured Health Plan

Beginning in May 2003, the Company implemented a self-insured health plan for all of its employees. In order to limit its exposure, the Company has purchased stop-loss insurance, which will reimburse the Company for individual claims in excess of \$0.1 million annually, or aggregate claims in excess of \$1.0 million annually. Self-insurance losses are accrued based on the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions adhered to in the insurance industry. The liability for self-insured losses is included in accrued expenses and was approximately \$0.4 million at June 30, 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

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

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 real estate and other taxes in the Company's consolidated statements of income and comprehensive income.

The Company may elect to treat one or more of its subsidiaries as a taxable REIT subsidiary ( TRS ). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as TRSs. At June 30, 2004, the Company's TRSs had a tax net operating loss ( NOL ) carryforward of approximately \$16.3 million, expiring from 2013 to 2016.

#### Segment Information

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

#### Use of Estimates

The preparation of financial statements in conformity with 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

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

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

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

impact the consolidated financial statements of the Company.

In May 2003, FASB issued Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ( SFAS No. 150 ). This statement established principles for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the interim period beginning after June 15, 2003. The initial adoption of SFAS No. 150 did not have a material impact on the consolidated financial statements of the Company.

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

In January 2003, FASB issued FIN 46, an interpretation of Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements*. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights, variable interest entities ( VIE ), and how to determine when and which business enterprises should consolidate the VIE. In addition, FIN 46 requires both the primary beneficiary and all other enterprises with significant variable interests in VIE to make additional disclosures. The transitional disclosure requirements are required for all financial statements initially issued after January 31, 2003. The consolidation provisions of FIN 46 are effective immediately for variable interests in VIE created after January 31, 2003. FIN 46 was deferred until the quarter ended March 31, 2004 for variable interests in VIE created before February 1, 2003. In December 2003, the FASB issued a revised FIN 46, which modified and clarified various aspects of the original interpretation. Under the revised guidance, FIN 46 applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interest. The initial adoption of FIN 46 did not have a material impact on the consolidated financial statements of the Company. The Company's maximum exposure to loss as a result of its involvement with potential VIE is described in Note 6.

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income, as reported	\$ 32,916	\$ 32,529	\$ 70,313	\$ 67,718
Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(310)	(491)	(620)	(982)
Pro forma net income	\$ 32,606	\$ 32,038	\$ 69,693	\$ 66,736
<b>Earnings per share:</b>				
Basic as reported	\$ 0.28	\$ 0.27	\$ 0.60	\$ 0.58
Basic pro forma	\$ 0.27	\$ 0.26	\$ 0.59	\$ 0.57
Diluted as reported	\$ 0.27	\$ 0.27	\$ 0.59	\$ 0.57
Diluted pro forma	\$ 0.27	\$ 0.26	\$ 0.58	\$ 0.56

**Note 3: Acquisitions and Dispositions**

Acquisitions

During the six months ended June 30, 2004, the Company acquired five shopping centers (New Britain Village Square, Elk Grove Town Center, Villa Monaco, Florence Square and Stockbridge Village), 11 acres of unimproved land known as Unity Plaza, and the remaining 50% interest in Clearwater Mall, a shopping center in which the Company owned the other 50% interest (the Clearwater Mall Acquisition). The remaining 50% interest in Clearwater Mall, a community shopping center encompassing a 72-acre site with 285,515 square feet of leased space located in Clearwater, Florida, was acquired on January 30, 2004 for approximately \$30.0 million. Subsequent to the completion of the Clearwater Mall Acquisition, the results of operations of this property were included in the consolidated results of operations of the Company. Unity Plaza, 11 acres of unimproved land located in East Fishkill, New York, was acquired on April 28, 2004 for approximately \$6.0 million. The Company will develop an approximately 70,000 square foot shopping center anchored by a 47,500 square foot A&P Food Market and has received all required permits and approvals necessary to commence development. New Britain Village



Square, a 143,716 square foot shopping center located in Chalfont, Pennsylvania, was acquired on January 9, 2004 for approximately \$23.4 million, consisting of the issuance of \$11.2 million in ERP limited partnership units and the assumption of a \$12.2 million mortgage loan previously made by the Company to the seller. Elk Grove Town Center, a 131,849 square foot shopping center located in Elk Grove Village, Illinois, was acquired on January 30, 2004 for approximately \$21.0 million, including the assumption of \$14.5 million of mortgage indebtedness. Villa Monaco, a 122,213 square foot shopping center located in Denver, Colorado, was acquired on February 19, 2004 for \$12.0 million. Florence Square, a 361,251 square foot shopping center located in Florence, Kentucky, was acquired on March 17, 2004 for approximately \$39.5 million, including the assumption of \$15.8 million of mortgage indebtedness. Stockbridge Village, a 188,203 square foot shopping center located in Stockbridge, Georgia (a suburb of Atlanta), was acquired on April 29, 2004 for approximately \$23.8 million.

In connection with the above acquisitions, and in compliance with the Company's business combination policy, the Company allocated approximately \$30.3 million to leases acquired. Of this amount, approximately \$29.8 million was attributable to the value of in-place leases at the time of acquisition, approximately \$0.2 million was attributable to legal fees and approximately \$0.3 million was attributable to below market lease value. The \$30.3 million, net of accumulated amortization of \$0.9 million, was recorded in intangible assets on the Company's consolidated balance sheets.

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

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

#### Dispositions

During the six months ended June 30, 2004, the Company sold seven properties, one outparcel, one land parcel and 90% of its ownership interest in Villa Monaco for aggregate gross proceeds of approximately \$30.1 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 (loss) income from discontinued operations (Note 5).

During 2003, the Company sold 24 properties, six land parcels and 70% of its ownership interest in Arapahoe Crossings, LP for aggregate gross proceeds of approximately \$117.1 million. In connection with the sale





of these properties, and in accordance with SFAS No. 144 (Note 2), the Company recorded the results of operations and the related gain on sale as income from discontinued operations (Note 5). The results of operations from Arapahoe Crossings, LP are not considered to be income from discontinued operations due to the Company's continued involvement in its operations as a result of the Company's retained 30% joint venture interest.

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

As of June 30, 2004, five retail properties 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 0.4 million square feet. Such properties had an aggregate book value of approximately \$15.1 million, net of accumulated depreciation of approximately \$2.3 million and impairment of \$2.5 million. In accordance with SFAS No. 144 (Note 2), the Company has recorded the results of operations and the related impairment of any properties classified as held for sale subsequent to December 31, 2001 as income from discontinued operations (Note 5).

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

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

The following is a summary of (loss) income from discontinued operations for the three and six months ended June 30, 2004 and 2003 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Total revenue				
Real estate held for sale	\$ 656	\$ 708	\$ 1,347	\$ 1,441
Other discontinued operations	399	2,102	1,037	3,959
Total revenue	1,055	2,810	2,384	5,400
Operating costs				
Real estate held for sale	(113)	(141)	(265)	(331)
Other discontinued operations	(72)	(286)	(243)	(746)
Real estate taxes				
Real estate held for sale	(95)	(52)	(181)	(130)
Other discontinued operations	(77)	(228)	(209)	(543)
Interest expense				
Real estate held for sale	(58)	(59)	(116)	(120)
Other discontinued operations				
Depreciation and amortization				
Real estate held for sale	(7)	(93)	(23)	(184)
Other discontinued operations	(63)	(233)	(145)	(568)
Provision for doubtful accounts				
Real estate held for sale	2	23	(104)	(62)
Other discontinued operations	(476)	(260)	(609)	(363)
Total operating costs	(959)	(1,329)	(1,895)	(3,047)
Income from discontinued operations before impairment and gain on sale	96	1,481	489	2,353
Impairment of real estate held for sale	(43)	(3,451)	(43)	(6,905)
(Loss) gain on sale of other discontinued operations	(970)	83	444	3,566
(Loss) income from discontinued operations	\$ (917)	\$ (1,887)	\$ 890	\$ (986)

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

At June 30, 2004, the Company had investments in five joint ventures: (1) Arapahoe Crossings, LP, (2) Benbrooke Ventures, (3) CA New Plan Venture Fund, (4) NP / I&G Institutional Retail Company, LLC and (5) Preston Ridge, which consists of The Centre at Preston Ridge, The Market at Preston Ridge, BPR West and various other undeveloped land parcels. The Company accounts for these investments using the equity method, unless otherwise noted in footnote three below. The following table summarizes the joint venture projects as of June 30, 2004 and December 31, 2003 (in thousands):

	City	State	JV Partner	Percent Ownership	Investments in/Advances to June 30, 2004	December 31, 2003
<b><u>Arapahoe Crossings, LP</u></b>						
Arapahoe Crossings (1)	Aurora	CO	Foreign Investor	30%	\$ 6,901	\$ 6,599
<b><u>Benbrooke Ventures(2) (3)</u></b>						
Rodney Village	Dover	DE	Benbrooke Partners	50%	\$	\$ 8,249
<b><u>CA New Plan Venture Fund (4)</u></b>						
Ventura Downs	Kissimmee	FL	Major U.S. Pension Fund	10%	*	*
Flamingo Falls	Pembroke Pines	FL	Major U.S. Pension Fund	10%	*	*
Sarasota Village	Sarasota	FL	Major U.S. Pension Fund	10%	*	*
Atlantic Plaza	Satellite Beach	FL	Major U.S. Pension Fund	10%	*	*
Mableton Walk	Mableton	GA	Major U.S. Pension Fund	10%	*	*
Raymond Road	Jackson	MS	Major U.S. Pension Fund	10%	*	*
Mint Hill Festival	Charlotte	NC	Major U.S. Pension Fund	10%	*	*
Ladera	Albuquerque	NM	Major U.S. Pension Fund	10%	*	*
Harwood Central Village	Bedford	TX	Major U.S. Pension Fund	10%	*	*
Odessa-Winwood Town Center	Odessa	TX	Major U.S. Pension Fund	10%	*	*
Ridglea Plaza	Fort Worth	TX	Major U.S. Pension Fund	10%	*	*
Marketplace at Wycliff	Lake Worth	FL	Major U.S. Pension Fund	10%	*	*
Spring Valley Crossing	Dallas	TX	Major U.S. Pension Fund	10%	*	*
Windvale	The Woodlands	TX	Major U.S. Pension Fund	10%	*	*
<b><u>In Process Development / Redevelopment Properties</u></b>						
Marrero Shopping Center	Marrero	LA	Major U.S. Pension Fund	10%	*	*
Clinton Crossings	Clinton	MS	Major U.S. Pension Fund	10%	*	*
					\$ 6,887	\$ 6,267
<b><u>Clearwater Mall, LLC</u></b>						
Clearwater Mall	Clearwater	FL	The Sembler Company	(5)	\$	\$ 4,225
<b><u>NP/I&amp;G Institutional Retail Company, LLC (4) (6)</u></b>						
DSW Plaza at Lake Grove	Lake Grove	NY	JPMorgan Fleming Asset Management	20%	*	*
Village Shoppes of East Cherokee	Woodstock	GA	JPMorgan Fleming Asset Management	20%	*	*
Conyers Crossroads	Conyers	GA	JPMorgan Fleming Asset Management	20%	*	*
					\$ 8,314	\$ 4,349
<b><u>Preston Ridge</u></b>						
The Centre at Preston Ridge (1)	Frisco	TX	Foreign Investor/George Allen/Milton Schaffer	25%	*	*
The Market at Preston Ridge (3) (7)	Frisco	TX	George Allen/Milton Schaffer	50%		*

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

BPR West (3) (7)	Frisco	TX	George Allen/Milton Schaffer	50%		*
Undeveloped land parcels (7)	Frisco	TX	George Allen/Milton Schaffer	50%	*	*
					\$ 6,421	\$ 9,269 (8)
<b>Investments in/Advances to Unconsolidated Ventures</b>					\$ 28,523	\$ 38,958

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

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

(2) The Company receives an 8.5% preferred return on its investment. As of December 31, 2003, this venture also owned Fruitland Plaza. Fruitland Plaza was sold in January 2004.

(3) In accordance with the provisions of FIN 46, this joint venture has been included as a consolidated entity in the Company's Consolidated Balance Sheet as of June 30, 2004. Therefore, the Company's equity investment balance has been eliminated.

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

(5) As of December 31, 2003, the Company's ownership percentage in this joint venture was 50%. On January 30, 2004, the Company purchased the remaining 50% interest in Clearwater Mall not previously owned. Accordingly, the results of operations for this property subsequent to the acquisition of the remaining 50% interest have been included in the consolidated results of operations of the Company. Prior to the acquisition of the remaining 50% interest, the Company received a 9.5% preferred return on its investment.

(6) As of December 31, 2003, NP / I&G Institutional Retail Company, LLC had approximately \$26.4 million of outstanding notes, payable to the Company. The note was repaid in full during the first quarter of 2004.

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

(8) The Company's investment balance includes approximately \$2.9 million of outstanding notes receivable relating to a mortgage loan on one of the undeveloped land parcels payable to the Company. The loan was repaid in full on April 1, 2004.

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

Condensed Combined Balance Sheets	June 30, 2004		December 31, 2003	
Cash and cash equivalents	\$	15,304	\$	10,170
Receivables		6,846		7,447
Property and equipment, net of accumulated depreciation		421,929		395,548
Other assets, net of accumulated amortization		11,872		9,700
<b>Total Assets</b>	<b>\$</b>	<b>455,951</b>	<b>\$</b>	<b>422,865</b>
Long-term debt	\$	300,269	\$	284,713
Accrued interest		1,307		1,304
Other liabilities		9,290		7,764
<b>Total liabilities</b>		<b>310,866</b>		<b>293,781</b>
<b>Total partners' capital</b>		<b>145,085</b>		<b>129,084</b>
<b>Total liabilities and partners' capital</b>	<b>\$</b>	<b>455,951</b>	<b>\$</b>	<b>422,865</b>
Company's investments in/advances to	\$	28,523	\$	38,958

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

Condensed Combined Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Rental revenues	\$ 13,489	\$ 15,209	\$ 27,640	\$ 24,656
Operating expenses	(3,064)	(2,811)	(8,186)	(5,757)
Interest expense	(3,843)	(2,437)	(7,285)	(5,110)
Other expense, net	(2,505)	(1,451)	(4,014)	(2,692)
Gain (loss) on sale of real estate, net	35		(922)	
Net income	\$ 4,112	\$ 8,510	\$ 7,233	\$ 11,097
Company's share of net income (1)	\$ 559	\$ 1,188	\$ 789	\$ 1,661

(1) Includes preferred returns of \$0.1 million and \$0.3 million for the three and six months ended June 30, 2004, respectively. Includes preferred returns of \$0.2 million and \$0.5 million for the three and six months ended June 30, 2003, respectively.

The following is a brief summary of the joint venture obligations that the Company had as of June 30, 2004.

As noted in the footnotes to the table above, and in accordance with the provisions of FIN 46, Benbrooke Ventures, The Market at Preston Ridge and BPR West have been included as consolidated entities in the Company's financial statements.

*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 three retail properties as of June 30, 2004. Under the terms of this joint venture, the Company has a 20% interest in the venture and is responsible for contributing its pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$30.0 million, of which approximately \$8.2 million had been contributed by the Company as of June 30, 2004. The Company anticipates contributing the remaining \$21.8 million during the remainder of 2004 and 2005. The joint venture had loans outstanding of approximately \$69.8 million as of June 30, 2004.

*CA New Plan Venture Fund.* The Company, together with a third party institutional investor, has an investment in a joint venture which owned 14 operating retail properties and two retail property under redevelopment as June 30, 2004. Under the terms of this joint venture, the Company has a 10% interest in the venture, and is responsible for contributing its pro rata share of any capital that might be required by the joint venture, up to a maximum amount of \$8.3 million, of which approximately \$5.4 million had been contributed by the Company as of June 30, 2004. The Company anticipates contributing the remaining \$2.9 million during the remainder of 2004. The joint venture had loans outstanding of approximately \$111.2 million as of June 30, 2004.

*Arapahoe Crossings, LP.* On September 30, 2003, a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in Arapahoe Crossings, reducing the Company's ownership interest from 100% to 30%. Under the terms of this joint venture, the Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$49.6 million as of June 30, 2004.

*Benbrooke Ventures.* The Company has an investment in a joint venture which owned a community and neighborhood shopping center, located in Dover, Delaware, as of June 30, 2004. Under the terms of this joint venture, the Company has a 50% interest in the venture; however, the Company has agreed to contribute 80% of any capital required by the joint venture. The Company does not, however, expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of June 30, 2004.

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

*The Centre at Preston Ridge.* Under the terms of this joint venture, the Company has a 25% interest in a venture that owns The Centre at Preston Ridge. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$69.7 million as of June 30, 2004.



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

*The Market at Preston Ridge.* The Company has a 50% investment in a joint venture that owns The Market at Preston Ridge. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$8.5 million, payable to the Company, as of June 30, 2004.

*BPR West.* The Company has a 50% investment in a joint venture that owns approximately 12.77 acres of undeveloped land in Frisco, Texas. The Company has agreed to contribute its

pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had loans outstanding of approximately \$3.2 million, payable to the Company, as of June 30, 2004.

*Undeveloped Land Parcels.* The Company has a 50% investment in a joint venture that owns approximately 38.6 acres of undeveloped land in Frisco, Texas. The Company has agreed to contribute its pro rata share of any capital that might be required by the joint venture; however, the Company does not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of June 30, 2004.

**Note 7: Debt Obligations**

As of June 30, 2004 and December 31, 2003, the Company had debt obligations under various arrangements with financial institutions as follows (in thousands):

	Maximum Amount Available	Carrying Value as of		Stated Interest Rates	Scheduled Maturity Date
		June 30, 2004	December 31, 2003		
<b>CREDIT FACILITIES</b>					
Fleet Revolving Facility	\$	\$	\$	191,000	N/A
Fleet Secured Term Loan				100,000	N/A
					LIBOR + 65 bp (1)
Revolving Facility	350,000	131,000			(2)
Secured Term Loan	150,000	150,000			LIBOR + 85 bp (1)
Total Credit Facilities	\$ 500,000	\$ 281,000	\$ 291,000		
<b>MORTGAGES PAYABLE</b>					
Fixed Rate Mortgages		\$ 512,944	\$ 530,640	6.670% - 9.625%	2004 2028
Variable Rate Mortgages		24,968	10,673	Variable (3)	2006 2011
Total Mortgages		537,912	541,313		
Net unamortized premium		15,210	16,965		
Total Mortgages, net	\$	\$ 553,122	\$ 558,278		
<b>NOTES PAYABLE</b>					
6.88% unsecured notes (4)	\$	75,000	\$ 75,000	6.875%	October 2004
7.75% unsecured notes		100,000	100,000	7.750%	April 2005
7.35% unsecured notes		30,000	30,000	7.350%	June 2007
5.88% unsecured notes		250,000	250,000	5.875%	June 2007
					September
7.40% unsecured notes		150,000	150,000	7.400%	2009
4.50% unsecured notes (5)		150,000		4.500%	February 2011
					November
5.50% unsecured notes		50,000	50,000	5.500%	2013
3.75% unsecured notes (6)		115,000	115,000	3.750%	June 2023
7.97% unsecured notes		10,000	10,000	7.970%	August 2026
					November
7.65% unsecured notes		25,000	25,000	7.650%	2026
					November
7.68% unsecured notes		10,000	10,000	7.680%	2026
					November
7.68% unsecured notes		10,000	10,000	7.680%	2026
6.90% unsecured notes		25,000	25,000	6.900%	February 2028
6.90% unsecured notes		25,000	25,000	6.900%	February 2028
7.50% unsecured notes		25,000	25,000	7.500%	July 2029
Total Notes		1,050,000	900,000		
Net unamortized discount		(5,199)	(3,116)		
Impact of pay-floating swap agreements		(1,048)	1,280		
Total Notes, net	\$	\$ 1,043,753	\$ 898,164		
CAPITAL LEASES	\$	\$ 28,401	\$ 28,562	7.500%	June 2031

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

TOTAL DEBT	\$	1,906,276	\$	1,776,004
------------	----	-----------	----	-----------

- 
- (1) The Company incurs interest using the 30-day LIBOR rate which was 1.37% as of June 30, 2004. 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, Moody's A Corporate Bond Index, or a rate determined by the appropriate remarketing agent plus spreads ranging from 125 to 375 basis points.
  - (4) The Company has entered into a two-year reverse swap agreement with Bank of America that effectively converted the interest rate on \$50 million of the notes from a fixed rate to the six month LIBOR rate, in arrears.
  - (5) The Company has entered into reverse interest rate swaps that effectively converted the interest rate on \$65 million of the notes from a fixed rate to a blended floating rate of 30 basis points over the six month LIBOR rate.
  - (6) Represents the Company's convertible senior notes.

On June 30, 2004, the Company amended its existing \$350 million unsecured revolving credit facility (the Revolving Facility). The Revolving Facility matures on June 30, 2007, with a one-year extension option. As of June 30, 2004, the Revolving Facility bore interest at LIBOR plus 65 basis points, based on the Company's then current debt rating. In addition, the Company incurs an annual facility fee of 20 basis points on this facility.

On June 30, 2004, the Company also amended its existing \$100 million secured term loan facility, increasing the loan amount to \$150 million (the Secured Term Loan ). The Secured Term Loan matures on June 30, 2007. As of June 30, 2004, the Secured Term Loan bore interest at LIBOR plus 85 basis points, based on the Company's then current debt rating.

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

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

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately \$1.3 billion

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

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

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

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

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

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

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

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

On May 19, 2003, the Company completed a public offering of \$100 million aggregate principal amount of 3.75% convertible senior notes due June 2023 (the Convertible Debt Offering ). On June 10, 2003, the underwriters exercised their over-allotment option in full and purchased an additional \$15 million aggregate principal amount of the notes. The notes are convertible into common stock of the Company upon the

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

occurrence of certain events, as discussed below, at an initial conversion price of \$25.00 per share. Holders may convert their notes into shares of the Company's common stock (or cash, or a combination of cash and shares of common stock, at the Company's option) under any of the following circumstances: (i) during any calendar quarter (and only during such calendar quarter) if the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the applicable conversion price on such last trading day; (ii) if the notes have been called for redemption; (iii) upon the occurrence of certain specified corporate transactions. The notes may not be redeemed by the Company prior to June 9, 2008, but are redeemable for cash, in whole or in part, any time thereafter. The net proceeds to the Company from the offering were approximately \$112 million and were used to repay a portion of the borrowings outstanding under the Company's then existing revolving credit facility.

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

As of June 30, 2004, future expected/scheduled maturities of outstanding long-term debt and capital lease obligations were as follows (in thousands):

2004 (remaining six months)	\$	82,662
2005		173,789
2006		43,753
2007		601,598
2008		187,382
Thereafter		808,129
<b>Total debt maturities</b>		<b>1,897,313</b>
Net unamortized premiums on mortgages		15,210
Net unamortized discount on notes		(5,199)
Fair value adjustment on pay-floating swap agreements		(1,048)
<b>Total debt obligations</b>	<b>\$</b>	<b>1,906,276</b>

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

#### Risk Management

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

#### Use of Derivative Financial Instruments

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

We have an existing reverse arrears swap agreement, which was entered into during 2002, with a notional amount of \$50.0 million, under which we receive the difference between the fixed rate of the swap, 4.357%, and the floating rate option, which is the six-month LIBOR rate, in arrears.

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

On January 30, 2004, concurrent with the pricing of the 2004 Debt Offering, the Company entered into three additional 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.



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

During the three months ended March 31, 2004, in order to mitigate the potential risk of adverse changes in the LIBOR swap rate, the Company entered into four 10-year forward starting interest rate swap agreements for an aggregate of approximately \$100.0 million in notional amount. These derivative instruments are expected to be used to hedge the risk of changes in interest cash outflows on anticipated fixed rate financings by effectively locking the three-month LIBOR swap rate. The gain or loss on the swaps will be deferred in accumulated other comprehensive income and will be amortized into earnings as an increase/decrease in effective interest expense during the same period or periods in which the hedged transaction affects earnings.

On May 19, 2004, in order to mitigate the potential risk of adverse changes in the LIBOR swap rate, the Company entered into a 10-year forward starting interest rate swap agreement for an aggregate of approximately \$50.0 million in notional amount. This derivative instrument is 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 at 5.765%. The gain or loss on the swap will be deferred in accumulated other comprehensive income and will be amortized into earnings as an increase/decrease in effective interest expense during the same 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, 2004 (in thousands). The notional amounts at June 30, 2004 provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

Hedge Product	Hedge Type	Notional Amount	Strike	Maturity	Fair Value
Reverse Arrears Swap	Fair Value	\$ 50,000	4.357%	10/15/04	\$ 437
Reverse Arrears Swap	Fair Value	50,000	4.380%	02/01/11	(1,160)
Reverse Arrears Swap	Fair Value	15,000	4.030%	02/01/11	(326)
Forward Starting Swap	Cash Flow	25,000	4.767%	10/15/14	850
Forward Starting Swap	Cash Flow	25,000	4.805%	10/15/14	775
Forward Starting Swap	Cash Flow	25,000	5.053%	04/06/15	655
Forward Starting Swap	Cash Flow	25,000	5.039%	04/06/15	683
Forward Starting Swap	Cash Flow	50,000	5.765%	04/06/15	(1,414)
					\$ 500

On June 30, 2004, the reverse arrears swap agreements and the forward starting swap agreements were reported at their fair values as Other Assets of \$(1.0) million and Other Liabilities of \$(1.5) million, respectively. Additionally, the reverse arrears swap debt of approximately \$(1.0) million at June 30, 2004 was reported as a component of the notes payable to which it was assigned. As of June 30, 2004, there were approximately \$2.5 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 \$0.1 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

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

A concentration of credit risk arises in the Company's business when a national or regionally-based tenant occupies a substantial amount of space in multiple properties owned by the Company. In that event, if the tenant suffers a significant downturn in its business, it may become unable to make its contractual rent payments to the Company, exposing the Company to a potential loss in rental revenue that is magnified as a result of the tenant renting space in multiple locations. The Company regularly monitors its tenant base to assess potential

concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No tenant exceeds 5% of annual reported rental income.

**Note 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 from 1.0 to 1.4 shares of common stock for each unit. ERP unit information is summarized as follows:

	Total Units	Company Units	Limited Partner Units
Outstanding at December 31, 2003	5,565,066	3,432,065	2,133,001
Issued	781,243	293,294	487,949(1)
Redeemed		1,381,609(2)	(1,381,609)(2)
Outstanding at June 30, 2004	6,346,309	5,106,968	1,239,341

- 
- (1) Represents partnership units issued in connection with the acquisition of New Britain Village Square (Note 3).
  - (2) Represents the redemption of partnership units for shares of common stock of the Company.

**Note 10:** Stockholders Equity

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

Earnings per Share (EPS)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Basic EPS</b>				
<b>Numerator:</b>				
Income from continuing operations	\$ 33,833	\$ 34,416	\$ 69,423	\$ 68,704
Preferred dividends	(5,275)	(5,753)	(10,550)	(10,612)
Premium on redemption of preferred stock		(630)		(630)
Net income available to common shares from continuing operations - basic	28,558	28,033	58,873	57,462
Net income available to common shares from discontinued operations - basic	(917)	(1,887)	890	(986)
Net income available to common shares - basic	\$ 27,641	\$ 26,146	\$ 59,763	\$ 56,476
<b>Denominator:</b>				
Weighted average of common shares outstanding	100,159	97,112	99,789	97,025
Earning per share - continuing operations	\$ 0.29	\$ 0.29	\$ 0.59	\$ 0.59
Earnings per share - discontinued operations	(0.01)	(0.02)	0.01	(0.01)
Basic earnings per common share	\$ 0.28	\$ 0.27	\$ 0.60	\$ 0.58
<b>Diluted EPS</b>				
<b>Numerator:</b>				
Income from continuing operations	\$ 33,833	\$ 34,416	\$ 69,423	\$ 68,704
Preferred dividends	(5,275)	(5,753)	(10,550)	(10,612)
Premium on redemption of preferred stock		(630)		(630)
Minority interest in consolidated partnership	286	375	546	776
Net income available to common shares from continuing operations - diluted	28,844	28,408	59,419	58,238
Net income available to common shares from discontinued operations - diluted	(917)	(1,887)	890	(986)
Net income available to common shares - diluted	\$ 27,927	\$ 26,521	\$ 60,309	\$ 57,252
<b>Denominator:</b>				
Weighted average of common shares outstanding basic	100,159	97,112	99,789	97,025
Effect of diluted securities:				
Common stock options	874	663	1,052	547
Excel Realty Partners, L.P. third party units	1,239	2,178	1,301	2,178
Weighted average of common shares outstanding - diluted	102,272	99,953	102,142	99,750
Earning per share - continuing operations	\$ 0.28	\$ 0.29	\$ 0.58	\$ 0.58
Earnings per share - discontinued operations	(0.01)	(0.02)	0.01	(0.01)
Diluted earnings per common share	\$ 0.27	\$ 0.27	\$ 0.59	\$ 0.57

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

Note - For the three months ended June 30, 2004 and 2003, there were approximately 0.9 million and 1.0 million stock options, respectively, that were anti-dilutive. For the six months ended June 30, 2004 and 2003, there were approximately 0.6 million and 2.3 million stock options, respectively, that were anti-dilutive. Additionally, debt issued in the Convertible Debt Offering is not included in the diluted calculation, as conversion triggers have not yet occurred.

25

---

### Common Stock

On July 21, 2003, the Company established a standby equity distribution program with BNY Capital Markets, Inc. pursuant to which the Company may issue and sell from time to time up to \$50 million of common stock in at the market transactions. As of June 30, 2004, the Company had not issued or sold any common stock under this distribution program.

### Preferred Stock

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

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

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

### Stock Based Compensation

#### Stock Options

The Company has one active stock option plan and four stock option plans under which option grants may no longer be made. In addition, two option grants were made to the Chief Executive Officer in February 2000, which were not part of the previously mentioned plans. Pursuant to the five 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

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

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, 2004, approximately 4.0 million shares were available for stock option grants and 0.9 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 at June 30, 2004 had exercise prices from \$12.8125 to \$26.10 and a weighted average remaining contractual life of approximately seven years. The total option shares exercisable under all five plans and two additional option grants, at June 30, 2004, was approximately 1.6 million.

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

Stock option activity is summarized as follows:

	Option Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2003	4,304,598	\$ 18.33
Granted	669,750	\$ 21.21
Exercised	(570,814)	\$ 20.18
Forfeited	(58,167)	\$ 25.97
Outstanding at June 30, 2004	4,345,367	\$ 19.16
Options exercisable at June 30, 2004	1,628,557	\$ 18.19

Effective January 1, 2003, the Company adopted the prospective method provisions of SFAS No. 148, which apply the recognition provisions of SFAS No. 123 to all employee stock awards granted, modified or settled after January 1, 2003.

Had compensation cost for the Company's stock options issued prior to December 31, 2002 been recognized based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123 (prospective adoption of SFAS 148 - see Note 2), the Company's net income for the three months ended June 30, 2004 would have been reduced by \$0.3 million from \$32.9 million to \$32.6 million (resulting in net income of \$0.27 per share - basic and diluted). For the three months ended June 30, 2003, net income would have been reduced by \$0.5 million from \$32.5 million to \$32.0 million (resulting in net income of \$0.26 per share - basic and diluted). For the six months ended June 30, 2004, net income would have been reduced by \$0.6 million from \$70.3 million to \$69.7 million (resulting in net income of \$0.59 per share - basic and \$0.58 per share - diluted). For the six months ended June 30, 2003, net income would have been reduced by \$1.0 million from \$67.7 million to \$66.7 million (resulting in net income of \$0.57 per share - basic and \$0.56 per share - diluted).

### Stock Awards

During the six months ended June 30, 2004, the Company granted 60,150 restricted shares to employees. Of these shares, 30,075 will vest proportionately over five years commencing on the first anniversary date of the initial grant. The balance of the restricted share grant will 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.

During the six months ended June 30, 2003, the Company granted 59,500 restricted shares to employees. Of these shares, 29,750 will vest proportionately over five years commencing on the first anniversary date of the initial grant. The balance of the restricted share grant will 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 Operations



under General and administrative.

During the six months ended June 30, 2004, the Company also granted 2,745 shares 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 Operations under General and

administrative.

**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, 2004 in connection with a particular tenant litigation. There can be no assurance as to the final outcome of this litigation and whether it will exceed or fall short of the amount reserved; however, even if the Company's ultimate loss is more than the reserve established, the Company does not expect that the amount of the loss in excess of the reserve would be material.

Funding Commitments

In addition to the joint venture funding commitments described in Note 6 above, the Company also had the following contractual obligations as of June 30, 2004, none of which the Company believes will have a material adverse affect on the Company's operations:

*Letters of Credit.* The Company has arranged for the provision of two separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, the Company will be obligated to reimburse the providing bank for the amount of the draw. As of June 30, 2004, there was no balance outstanding under either letter of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately \$1.6 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, 2004, the Company had mortgage loans outstanding of approximately \$553.1 million, and joint ventures in which the Company has a direct or indirect interest had mortgage loans outstanding of approximately \$300.3 million.

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

<b>Year</b>		
2004 (remaining six months)	\$	666
2005		1,324
2006		771
2007		533
2008		398
Thereafter		12,421

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 \$36.7 million and \$31.9 million for the three months ended June 30, 2004 and 2003, respectively. Total comprehensive income was \$71.8 million and \$67.3 million for the six months ended June 30, 2004 and 2003, respectively. The primary components of comprehensive income, other than net income, are the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and the Company's mark-to-market on its available-for-sale securities.

As of June 30, 2004 and December 31, 2003, accumulated other comprehensive income reflected in the Company's stockholders' equity on the consolidated balance sheets was comprised of the following (in thousands):

	As of June 30, 2004	As of December 31, 2003
Unrealized gains on available-for-sale securities	\$ 1,783	\$ 1,942
Realized gains on interest risk hedges	2,084	2,195
Realized losses on interest risk hedges	(1,160)	(1,352)
Unrealized gains on interest risk hedges	2,963	
Unrealized losses on interest risk hedges	(1,414)	
Accumulated other comprehensive income	\$ 4,256	\$ 2,785

**Item 2.**

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

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

During the six months ended June 30, 2004, we acquired five shopping centers (New Britain Village Square, Elk Grove Town Center, Villa Monaco, Florence Square and Stockbridge Village), 11 acres of unimproved land known as Unity Plaza, and the remaining 50% interest in Clearwater Mall, a shopping center in which we owned the other 50% interest (collectively, 2004 Acquisitions ). During the second and third quarters of 2003, we also acquired three shopping centers, Panama City Square, Harpers Station and Dickson City Crossings (collectively, 2003 Acquisitions ). Accordingly, our results of operations for the three and six months ended June 30, 2004 include the results of operations of the 2004 Acquisitions and the 2003 Acquisitions.

In accordance with the provisions of FIN 46, our consolidated results of operations for the three and six months ended June 30, 2004 include the results of operations of three of our joint ventures 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, 2004 and 2003**

***Rental Revenues:***

Total rental revenues increased \$2.9 million, or 2%, from \$120.0 million for the three months ended June 30, 2003 to \$122.9 million for the three months ended June 30, 2004. The major areas of change are discussed below.

Rental income increased \$4.5 million, or 5%, from \$92.1 million for the three months ended June 30, 2003 to \$96.6 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased rental income by approximately \$3.9 million

2003 Acquisitions, which increased rental income by approximately \$1.7 million

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

Decreases in cost of living adjustments, which decreased rental income by approximately \$0.5 million

Decreases in rental revenues attributable to properties under redevelopment and certain circumstances in which specific tenants are paying percentage rent in lieu of fixed rent, compounded by decreases in late charges and other miscellaneous income which accounted for the balance of the variance

Expense reimbursements decreased \$1.2 million, or 5%, from \$26.0 million for the three months ended June 30, 2003 to \$24.8 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased expense reimbursements by approximately \$0.6 million

2003 Acquisitions, which increased expense reimbursements by approximately \$0.3 million

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

Decreases in the amount of reimbursable real estate and property operating expenses, which

accounted for the balance of the variance

**Expenses:**

Total expenses increased \$3.7 million, or 4%, from \$87.3 million for the three months ended June 30, 2003 to \$91.0 million for the three months ended June 30, 2004. The major areas of change are discussed below.

Operating costs decreased \$3.1 million, or 13%, from \$23.0 million for the three months ended June 30, 2003 to \$19.9 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased operating costs by approximately \$0.6 million

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

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

Decreased insurance expense attributable to lower premiums under our renewed policy that went into effect in April 2004, which decreased operating costs by approximately \$1.7 million

Decreased snow removal costs attributable to unusually harsh winter conditions in the second quarter of 2003, which decreased operating costs by approximately \$0.4 million

Decreased payroll related expenses, which decreased operating costs by approximately \$0.4 million

Decreased professional fees, which decreased operating costs by approximately \$0.3 million

Combined decreases in utilities, cleaning, and other expenses, which decreased operating costs by approximately \$1.2 million



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

Real estate and other taxes increased \$0.6 million, or 4%, from \$14.6 million for the three months ended June 30, 2003 to \$15.2 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased real estate and other taxes by approximately \$0.5 million

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

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

Depreciation and amortization expense increased \$3.2 million, or 17%, from \$18.6 million for the three months ended June 30, 2003 to \$21.8 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased depreciation and amortization by approximately \$1.1 million

2003 Acquisitions, which increased depreciation and amortization by approximately \$0.4 million

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

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

General and administrative expenses increased \$1.0 million, or 24%, from \$4.2 million for the three months ended June 30, 2003 to \$5.2 million for the three months ended June 30, 2004. The following factors accounted for this variance:

Increased payroll related expenses, which increased general and administrative expenses by approximately \$0.5 million

Increased accounting and audit fees, which increased general and administrative expenses by approximately \$0.4 million

Decreased allocation of costs to operating expenses, which accounted for the balance of the variance

***Other Income and Expenses:***

Equity in income of unconsolidated ventures decreased \$0.6 million, or 50%, from \$1.2 million for the three months ended June 30, 2003 to \$0.6 million for the three months ended June 30, 2004. The decrease was attributable to a \$0.6 million gain on the sale of Flamingo Falls, a property owned by the CA New Plan Venture Fund, which was recorded in the second quarter of 2003.

Interest expense increased \$1.7 million, or 7%, from \$24.8 million for the three months ended June 30, 2003 to \$26.5 million for the three months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased interest expense by approximately \$0.4 million

2003 Acquisitions, which increased interest expense by approximately \$0.7 million

The Convertible Debt Offering and the 2004 Debt Offering, which increased interest expense by approximately \$2.3 million

Increased amortization of debt issuance costs, primarily attributable to the write-off of costs associated with our previously existing revolving credit facility and secured term loan, which increased interest expense by approximately \$1.0 million

The refinancing of our previously existing senior unsecured term loan facility at a lower interest rate, compounded by a lower interest rate on the Revolving Facility, which decreased interest expense by approximately \$0.5 million

The repayment of \$49 million of our 7.33% medium-term notes with the proceeds from our Medium-Term Notes Offering, which decreased interest expense by approximately \$0.2 million

A reduction of our mortgage debt, which decreased interest expense by approximately \$0.9 million

Increased capitalization with respect to our redevelopment projects, which decreased interest expense by \$0.8 million

Decreased interest on swaps, 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. As of June 30, 2004, such properties generated approximately \$0.1 million and \$(1.0) million in results of operations and loss on sale, respectively. As of June 30, 2003, such properties generated approximately \$1.5 million, \$0.1 million and \$(3.5) million in results of operations, gain on sale and impairment loss, respectively. Accordingly, these amounts have been classified as discontinued operations.

**Results of operations for the six months ended June 30, 2004 and 2003**

***Rental Revenues:***

Total rental revenues increased \$8.3 million, or 3%, from \$239.8 million for the six months ended June 30, 2003 to \$248.1 million for the six months ended June 30, 2004. The major areas of change are discussed below.

Rental income increased \$8.6 million, or 5%, from \$184.2 million for the six months ended June 30, 2003 to \$192.8 million for the six months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased rental income by approximately \$5.8 million

2003 Acquisitions, which increased rental income by approximately \$3.4 million

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

Increased lease settlement income, which increased rental income by approximately \$1.5 million

Decreases in cost of living adjustments, which decreased rental income by approximately \$0.6 million

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

Expense reimbursements decreased \$0.9 million, or 2%, from \$51.9 million for the six months ended June 30, 2003 to \$51.0 million for the six months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased expense reimbursements by approximately \$1.1 million

2003 Acquisitions, which increased expense reimbursements by approximately \$0.7 million

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

A decrease in the amount of reimbursable real estate and property operating expenses, which accounted for the balance of the variance

*Expenses:*

Total expenses increased \$8.1 million, or 5%, from \$176.2 million for the six months ended June 30, 2003 to \$184.3 million for the six months ended June 30, 2004. The major areas of change are discussed below.

Operating costs decreased \$1.9 million, or 4%, from \$45.8 million for the six months ended June 30, 2003 to \$43.9 million for the six months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased operating costs by approximately \$0.9 million

2003 Acquisitions, which increased operating costs by approximately \$0.6 million

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

Combined increases in repairs, maintenance, utilities, and other expenses, which increased operating costs by approximately \$0.7 million

Decreased insurance expense attributable to lower premiums under our renewed policy that went into effect in April 2004, which decreased operating costs by approximately \$1.0 million

Decreased snow removal costs attributable to unusually harsh winter conditions during the first six months of 2003 costs, which decreased operating costs by approximately \$1.1 million,

Decreased payroll related expenses, which decreased operating costs by approximately \$0.6 million

Decreased professional fees, which decreased operating costs by approximately \$0.9 million

Combined decreases in cleaning expenses and cost allocations, which accounted for the balance of the variance

Depreciation and amortization expense increased \$5.7 million, or 15%, from \$37.3 million for the six

months ended June 30, 2003 to \$43.0 million for the six months ended June 30, 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased depreciation and amortization by approximately \$1.6 million

2003 Acquisitions, which increased depreciation and amortization by approximately \$0.9 million

Increased amortization expense attributable to deferred expenses, which increased depreciation and amortization by approximately \$1.1 million

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

General and administrative expenses increased \$1.8 million, or 21%, from \$8.4 million for the six months ended June 30, 2003 to \$10.2 million for the six months ended June 30, 2004. The following factors accounted for this variance:

Increased payroll related expenses, which increased general and administrative expenses by approximately \$1.0 million

Combined increases in utility costs, legal fees and accounting and audit fees, which increased general and administrative expenses by approximately \$0.8 million

***Other Income and Expenses:***

Interest, dividend and other income decreased \$0.9 million, or 17%, from \$5.3 million for the six months ended June 30, 2003 to \$4.4 million for the six months ended June 30, 2004. The following factors accounted for this variance:

Combined increases in management fee revenue, acquisition/disposition fee revenue and development fee revenue, which increased interest, dividend and other income by approximately \$1.2 million



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

Tax refund received for one property, which increased interest, dividend and other income by approximately \$0.3 million

FIN 46 Consolidation Adjustments, which decreased interest, dividend and other income by approximately \$0.1 million

The payoff of certain notes receivable, which decreased interest, dividend and other income by approximately \$0.5 million

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

The payoff of a letter of credit on which we were earning fee income, which decreased interest, dividend and other income by approximately \$1.3 million

The payoff of certain employee loans receivable, which decreased interest, dividend and other income by approximately \$0.1 million

Decreased leasing fee revenue, which decreased interest, dividend and other income by approximately \$0.2 million

Equity in income of unconsolidated ventures decreased \$0.9 million, or 53%, from \$1.7 million for the six months ended June 30, 2003 to \$0.8 million for the six months ended June 30, 2004. The following factors accounted for this variance:

FIN 46 Consolidation Adjustments, which decreased equity in income of unconsolidated ventures by approximately \$0.1 million

A \$0.6 million gain on the sale of Flamingo Falls, a property owned by the CA New Plan Venture Fund, which was recorded in the second quarter of 2003

A \$0.2 million loss on the sale of Fruitland Plaza, a property owned by Benbrooke Ventures, which was recorded in the first quarter of 2004

Interest expense increased \$2.0 million, or 4%, from \$50.9 million for the six months ended June 30, 2003 to \$52.9 million for the six months ended June 30, 2004. The following factors accounted for this variance:

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

2003 Acquisitions, which increased interest expense by approximately \$1.5 million

The Convertible Debt Offering and the 2004 Debt Offering, which increased interest expense by approximately \$4.6 million

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

Increased amortization of debt issuance costs, primarily attributable to the write-off of costs associated with our previously existing revolving credit facility and secured term loan, which increased interest expense by approximately \$0.7 million

The refinancing of our previously existing senior unsecured term loan facility at a lower interest rate, compounded by a lower interest rate on, and a lower balance outstanding under, the Revolving Facility, which decreased interest expense by approximately \$1.2 million

The payoff of the variable rate REMIC debt, which decreased interest expense by approximately \$0.6 million

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

The repayment of \$49 million of our 7.33% medium-term notes with the proceeds from our Medium-Term Notes Offering, which decreased interest expense by approximately \$0.3 million

A reduction of our mortgage debt, which decreased interest expense by approximately \$1.9 million

Increased capitalization with respect to our redevelopment projects, which decreased interest expense by \$1.1 million

Decreased interest on swaps, 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. As of June 30, 2004, such properties generated approximately \$0.5 million and \$0.4 million in results of operations and gain on sale, respectively. As of June 30, 2003, such properties generated approximately \$2.4 million, \$(6.9) million and \$3.6 million in results of operations, impairment loss and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

### **Funds from Operations**

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income available to common stockholders diluted	\$ 27,927	\$ 26,521	\$ 60,309	\$ 57,252
Deduct:				
Minority interest in income of consolidated partnership	(286)	(375)	(546)	(776)
Net income available to common stockholders - basic	27,641	26,146	59,763	56,476
Add:				
Depreciation and amortization				
Continuing operations real estate assets	21,823	18,615	42,989	37,307
Discontinued operations real estate assets	70	326	168	752
Pro rata share of joint venture real estate assets	268	209	641	463
Deduct:				