

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 8-K/A
June 20, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K/A
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) April 28, 2003

Pennsylvania Real Estate Investment Trust

(Exact Name of Registrant as Specified in Charter)

| | | |
|---|-----------------------------|--------------------------------------|
| Pennsylvania | 1-6300 | 23-6216339 |
| ----- | ----- | ----- |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

The Bellevue, 200 S. Broad Street, Philadelphia, Pennsylvania 19102

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (215) 875-0700

(Former Name or Former Address, if Changed Since Last Report)

This Current Report on Form 8-K/A amends the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2003 by Pennsylvania Real Estate Investment Trust relating to the acquisition of certain malls from The Rouse Company. This amendment is being filed to amend Item 2 and Item 7 of the original Form 8-K in their entirety.

Item 2. Acquisition or Disposition of Assets.

On April 28, 2003, Pennsylvania Real Estate Investment Trust (together with its affiliated entities, "PREIT") acquired Moorestown Mall, The Gallery at Market East and Exton Square Mall from affiliated entities of The Rouse Company ("Rouse"). In a related transaction, on June 5, 2003, PREIT acquired Echelon Mall and Plymouth Meeting Mall from Rouse. Additionally, on June 5, 2003, PREIT acquired the ground lessor's interest in Plymouth Meeting Mall from the Teachers

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Insurance and Annuity Association ("TIAA"). These transactions were conducted by PREIT through an exchange accommodation title holder in accordance with the provisions of Section 1031 of the Internal Revenue Code. In addition, on April 28, 2003, New Castle Associates acquired Cherry Hill Mall from Rouse in exchange for its interest in Christiana Mall, cash and the assumption by New Castle Associates of mortgage debt on Cherry Hill Mall. As further described below, on that same date, PREIT also acquired an ownership interest in New Castle Associates and an option to acquire the remaining ownership interests.

The aggregate purchase price for PREIT's acquisition of the five malls from Rouse, for TIAA's ground lease interest in Plymouth Meeting Mall and for PREIT's interest in New Castle Associates (including the additional purchase price expected to be paid upon exercise of PREIT's option to acquire the remaining interests in New Castle Associates) was \$549.4 million, including approximately \$237.4 million in cash, the assumption of \$277 million in non-recourse mortgage debt and the issuance of \$35 million in units of limited partnership interest in PREIT's operating partnership ("OP Units"). All of the OP Units were or will be issued as part of the consideration for PREIT's acquisition of its interest in New Castle Associates. One of the partners of New Castle Associates, Pan American Associates, the former sole general partner and a limited partner of New Castle Associates, is controlled by Ronald Rubin, PREIT's Chairman and Chief Executive Officer, and George Rubin, a trustee of PREIT and President of PREIT's management subsidiaries, PREIT-RUBIN, Inc. and PREIT Services, LLC.

PREIT financed the cash portion of the purchase price by (1) borrowing \$175 million under an unsecured credit facility (the "Acquisition Credit Facility") with Wells Fargo, National Association ("Wells Fargo") and (2) by refinancing Dartmouth Mall in Dartmouth, Massachusetts and Moorestown Mall in Moorestown, New Jersey (the "Financings") for \$70 million and \$64.3 million, respectively. The term of the Financings is ten years, with amortization on a 30 year basis, at an interest rate of 4.95%. PREIT received net cash proceeds of \$74.2 million from the Financings after repayment of the existing mortgage debt on these properties.

The Acquisition Credit Facility is comprised of a \$175 million term loan facility (the "Term Loan") and a \$25 million revolving loan facility (the "Revolving Loan"). The Acquisition Credit Facility matures on October 27, 2003, and may be extended for an additional 90 days upon the payment of an extension fee of 0.20% of the amount then outstanding. The Revolving Loan and the Term Loan provide for full recourse to PREIT and its subsidiary guarantors. The fee paid to Wells Fargo for the Term Loan was \$1,312,500, and will include an additional 0.25% of the then outstanding Term Loan amount payable unless the Acquisition Credit Facility has been fully repaid and cancelled by July 23, 2003. The fee paid to Wells Fargo for the Revolving Loan was \$62,500, plus \$125,000 payable upon the earlier of the first advance of the Revolving Loan or October 27, 2003. In addition, there is a fee of 0.125% per annum on the unused portion of the Revolving Loan payable to Wells Fargo quarterly in arrears. At PREIT's option, the Acquisition Credit Facility bears interest at either (1) the Base Rate (the greater of Wells Fargo's prime rate or the Federal Funds Rate plus 0.5%) or (2) the LIBOR rate for which deposits are offered to Wells Fargo for one-, two-, three- or six-month periods, plus margins ranging from 2.5% to 3.0%, depending on PREIT's ratio of Total Liabilities to Gross Asset Value (as defined in the credit agreement for the Acquisition Credit Facility). As of June 16, 2003, the margins for the LIBOR Loans were set at 3.0%.

-2-

The financial covenants of the Acquisition Credit Facility are the same as those of PREIT's existing credit facility dated December 28, 2000, agented by

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Wells Fargo (as modified as described below, the "Existing Credit Facility"), plus two additional covenants providing that PREIT's secured recourse indebtedness may not exceed 15% of its Gross Asset Value and that PREIT may not, without Wells Fargo's approval, incur unsecured Indebtedness (as defined in the credit agreement for the Acquisition Credit Facility) other than under the Acquisition Credit Facility and the Existing Credit Facility or with respect to trade payables. PREIT has used approximately \$164.8 million of the cash proceeds from the sale of its multifamily portfolio to repay a substantial portion of its borrowings under the Acquisition Credit Facility. As of June 16, 2003, approximately \$10.2 million remained outstanding under the Acquisition Credit Facility. The Acquisition Credit Facility may be prepaid without premium or penalty subject to the payment of customary LIBOR breakage costs.

In connection with the Acquisition Credit Facility, PREIT also entered into an amendment of its Existing Credit Facility, including an amendment of the financial covenant to maintain a ratio of Total Liabilities to Gross Asset Value of 0.70:1 (rather than the previous ratio of 0.65:1), and a modification of the definition of Total Liabilities to exclude the debt premiums on the acquired properties resulting from the above-market interest rates on the assumed debt. In addition, the Floating Rate Debt limitation under the Existing Credit Facility was increased from \$200,000,000 to \$400,000,000. As consideration for these modifications, PREIT agreed to a provision requiring that, if its ratio of Total Liabilities to Gross Asset Value exceeds 0.65:1 but is less than 0.70:1, the Existing Credit Facility will bear interest at LIBOR plus 190 basis points, which is an increase to the previous range of 130 to 180 basis points. PREIT also agreed to pay each lender under the Existing Credit Facility an amendment fee of 0.15% of each Lender's existing revolving commitment amount, which fees totaled \$300,000.

PREIT's acquisition of its interest in New Castle Associates consisted of acquiring 49% of the aggregate partnership interests in New Castle Associates from partners of New Castle Associates other than Pan American Associates on April 28, 2003, in exchange for an aggregate of 585,422 OP Units valued at \$17.1 million. Simultaneously with this acquisition, PREIT increased its aggregate ownership interest in New Castle Associates to 72.89% by acquiring an additional ownership interest directly from New Castle Associates in exchange for a cash investment in New Castle Associates of approximately \$30.8 million. This cash investment was used by New Castle Associates to pay to Rouse the majority of the cash portion of the purchase price and associated costs for the acquisition of Cherry Hill Mall.

PREIT also obtained an option, exercisable commencing April 30, 2004 and expiring October 27, 2004, to acquire the remaining interests in New Castle Associates, including that of Pan American Associates, in exchange for an aggregate of 609,317 additional OP Units. If PREIT does not exercise this option, the remaining partners of New Castle Associates will have the right, beginning April 28, 2008 and expiring October 25, 2008, to require PREIT to acquire the remaining interests in New Castle Associates in exchange for an aggregate of 670,248 additional OP Units. Unless and until PREIT acquires the remaining interests in New Castle Associates, the remaining partners of New Castle Associates other than PREIT will be entitled to receive a cumulative preferred distribution from New Castle Associates equal to approximately \$1.2 million in the aggregate per annum, subject to certain downward adjustments based upon certain capital distributions by New Castle Associates. If PREIT does not exercise its call right, this preferred distribution will increase by 50% beginning October 30, 2004 and by an additional 5% over the amount for the preceding year beginning January 1, 2005 and annually thereafter. If the remaining New Castle Associates partners do not exercise their put rights, this preferred distribution will terminate on April 28, 2008.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

In connection with PREIT's acquisition of its interest in New Castle Associates, Pan American Associates ceased to be a general partner of New Castle Associates and PREIT designated one of its affiliates as the sole general partner. Certain former partners of New Castle Associates not affiliated with PREIT exercised their special right to redeem for cash an aggregate of 261,349 OP Units issued to such partners at closing, and PREIT paid to those partners an aggregate amount of approximately \$7.7 million. In addition, PREIT granted registration rights to the partners of New Castle Associates with respect to the PREIT shares underlying the OP Units issued or to be issued to them, other than those redeemed for cash following the closing.

To facilitate the exchange of Christiana Mall for Cherry Hill Mall, PREIT waived any right of first refusal that it may have had with respect to the sale of Christiana Mall by New Castle Associates. Upon the sale of Christiana Mall by New Castle Associates, and before PREIT's investment in New Castle Associates, PREIT's management and leasing agreement for that property was terminated, and PREIT received a brokerage fee of \$2 million from New Castle Associates in respect of the exchange of Christiana Mall for Cherry Hill Mall. PREIT also entered into a new management and leasing agreement with New Castle Associates for Cherry Hill Mall, which provides for a fee of approximately 5.25% of all rents and other revenues received by New Castle Associates from the Cherry Hill Mall.

Rouse, Wells Fargo and the lenders under the Financings, Lehman Brothers Bank, FSB and Lehman Brothers Holdings, Inc., are unaffiliated with PREIT, and the terms of the transactions with Rouse, Wells Fargo and the lenders under the Financings were determined through arm's length negotiations. A special committee of PREIT's Board of Trustees was formed to consider the fairness of the New Castle Associates contribution transaction (including the relevant elements of the Rouse transaction). The special committee, which was comprised of all of PREIT's independent trustees at that time, approved those transactions.

Each of Cherry Hill Mall, Moorestown Mall, Exton Square Mall, The Gallery at Market East, Echelon Mall and Plymouth Meeting Mall was operated by Rouse as a retail mall, and PREIT and New Castle Associates intend to continue to operate these properties as retail malls, except with respect to Echelon Mall, a portion of which PREIT may seek to convert into other commercial uses. The following chart shows information related to each of these malls:

-4-

| Mall Name | Total Square Feet (in thousands) | Total Owned Square Feet (in thousands) | % Occupied In-Line(1) | Sales per SF(1) | Major Tenants | Lease Expiration(2) | Mortgage Balance (in millions) (3), (4) |
|------------------|----------------------------------|--|-----------------------|-----------------|-------------------------|---------------------|---|
| Cherry Hill Mall | 1,282 | 533 | 94.5% | \$404 | JCPenney | N/A | \$74 |
| Cherry Hill, NJ | | | | | Macy's Strawbridge's | N/A N/A | 60 |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

| | | | | | | | | |
|---|-------|-------|-------|-------|--|-----------------------------------|-------|----------|
| Moorestown Mall Moorestown, NJ | 1,036 | 716 | 93.9% | 312 | Boscov's Lord & Taylor Sears Strawbridge's | 2005 N/A 2022 N/A N/A | 42 | LI +1 |
| Exton Square Mall Exton, PA | 1,098 | 463 | 89.7% | 361 | Boscov's Sears JCPenney Strawbridge's | N/A N/A N/A N/A | 101 | |
| The Gallery at Market East Philadelphia, PA | 1,220 | 191 | 98.9% | 419 | K-Mart Strawbridge's | N/A N/A | -- | |
| Echelon Mall Voorhees, NJ | 1,140 | 601 | 80.1% | 252 | Boscov's Strawbridge's | N/A N/A | -- | |
| Plymouth Meeting Mall Plymouth Meeting, PA | 823 | 607 | 87.4% | 244 | Boscov's Strawbridge's | 2015 N/A | -- | |
| TOTAL/AVERAGE | 6,599 | 3,111 | 90.0% | \$328 | | | \$277 | |

(1) Information is as of 12/31/02.

(2) The lease expiration date for tenants that own their own store is noted as N/A.

(3) Mortgage balances are as of the settlement date.

(4) Does not reflect the June 2003 refinancing of Moorestown Mall.

Copies of the principal agreements relating to the transactions described in this report are attached hereto and incorporated herein by reference. The description contained herein of these agreements does not purport to be complete and is qualified in its entirety by reference to the provisions of these agreements.

This report contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and other matters that are not historical facts. These forward-looking statements reflect PREIT's current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. PREIT's business is subject to uncertainties regarding the revenues, operating expenses, leasing activities, occupancy rates, and other competitive factors relating to PREIT's portfolio, and changes in local market conditions as well as general economic, financial and political conditions, including the possibility of outbreak or escalation of war or terrorist attacks, any of which may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. PREIT does not intend to and disclaims any duty or obligation to update or revise any forward-looking statements or

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

industry information set forth in this report to reflect new information, future events or otherwise.

-5-

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired:

The following financial statements are attached hereto:

- (i) Combined Statements of Revenues and Certain Expenses of Subject Properties - First Close for the year ended December 31, 2002 and for the three-month period ended March 31, 2003 (unaudited)
- (ii) Combined Statements of Revenues and Certain Expenses of Subject Properties - Second Close for the year ended December 31, 2002 and for the three-month period ended March 31, 2003 (unaudited)
- (iii) Statements of Revenues and Certain Expenses of Cherry Hill Mall for the years ended December 31, 2002, 2001 and 2000 and for the three-month period ended March 31, 2003 (unaudited).

Material factors considered in assessing the acquisition of the malls described in this report include but were not limited to the opportunity to strengthen PREIT's retail presence in the metropolitan Philadelphia area, the opportunity for increased operational efficiencies, greater competitive advantages and cross-selling opportunities from strengthening PREIT's existing retail portfolio, historical and prospective financial performance of the malls, local and regional demographics, competition, sources of revenues and expenses of the properties, the nature of the tenants and terms of leases in place, opportunities for alternative and new tenancies, historical and expected cash flows, occupancy rates, current operating costs on the properties and anticipated changes therein under PREIT's ownership, the physical condition and location of the properties and the anticipated effect on PREIT's financial results. After reasonable inquiry, PREIT is not aware of any material factors relating to the mall properties, other than those described in the foregoing discussion, that would cause the financial information reported in Item 7(a) hereof not to be necessarily indicative of future operating results.

-6-

(b) Pro Forma Financial Information:

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
UNAUDITED PRO FORMA COMBINING BALANCE SHEET AND
COMBINING STATEMENTS OF INCOME

This unaudited pro forma information should be read in conjunction with

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

the historical financial statements and notes of PREIT included in its annual report on Form 10-K for the year ended December 31, 2002 and its quarterly report filed on Form 10-Q for the three months ended March 31, 2003.

The following unaudited pro forma information sets forth the pro forma combining balance sheet of PREIT as of March 31, 2003 and the pro forma combining statements of income for the year ended December 31, 2002 and the three months ended March 31, 2003 to give effect to the acquisition of five malls and the investment in New Castle Associates and other financing events as described in Item 2.

The following unaudited pro forma combining balance sheet presents information as if the acquisition of the malls had taken place on March 31, 2003. The following unaudited pro forma statements of income for the year ended December 31, 2002 and for the three months ended March 31, 2003 present combined financial information as if the acquisition of the malls had taken place on January 1, 2002 and January 1, 2003, respectively.

The pro forma combining financial information is unaudited and prepared for informational purposes only and is not necessarily indicative of future results or of actual results that would have been achieved had the acquisition of the malls been consummated as of the dates noted in the prior paragraph.

-7-

Pennsylvania Real Estate Investment Trust Pro Forma Combining Balance Sheet As of March 31, 2003

(Unaudited)

(In thousands, except per share amounts)

| | Company Historical | First Close Acquisition (A) | New Castle Acquisition (B) |
|--|-----------------------|--------------------------------|-------------------------------|
| Assets: | | | |
| Investments in real estate, at cost: | | | |
| Retail properties | \$ 426,428 | \$ 267,778 | \$ 203,978 |
| Construction in progress | 19,232 | -- | -- |
| Industrial properties | 2,504 | -- | -- |
| | ----- | ----- | ----- |
| Total investments in real estate | 448,164 | 267,778 | 203,978 |
| Less accumulated depreciation | (44,036) | -- | -- |
| | ----- | ----- | ----- |
| | 404,128 | 267,778 | 203,978 |
| Investments in and advances to partnerships and joint ventures, at equity | 25,556 | -- | -- |
| | ----- | ----- | ----- |
| | 429,684 | 267,778 | 203,978 |
| Other assets: | | | |
| Assets held for sale | 205,021 | -- | -- |
| Cash and cash equivalents | 8,115 | (717) | (542) |
| Rents and sundry receivables (net of allowance for doubtful accounts of \$1,084) | 9,829 | 472 | 400 |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

| | | | |
|---|------------|------------|------------|
| Deferred costs and other assets, net | 46,598 | 7,404 | 5,140 |
| | ----- | ----- | ----- |
| | \$ 699,247 | \$ 274,937 | \$ 208,976 |
| | ===== | ===== | ===== |
| Liabilities: | | | |
| Mortgage notes payable | \$ 126,193 | \$ 146,189 | \$ 140,974 |
| Bank loans payable | 146,900 | 123,507 | 28,853 |
| Liabilities related to assets held for sale | 190,679 | -- | -- |
| Tenants' deposits and deferred rents | 1,633 | 1,165 | 1,453 |
| Accrued expenses and other liabilities | 16,172 | 4,076 | 2,708 |
| | ----- | ----- | ----- |
| Total liabilities | 481,577 | 274,937 | 173,988 |
| | ----- | ----- | ----- |
| Minority interest | 32,236 | -- | 34,988 |
| | ----- | ----- | ----- |
| Shareholders' equity: | | | |
| Shares of beneficial interest, \$1 par; 100,000 authorized; issued and outstanding 16,754 shares | 16,754 | -- | -- |
| Capital contributed in excess of par | 218,158 | -- | -- |
| Deferred compensation | (3,579) | -- | -- |
| Accumulated other comprehensive loss | (3,845) | -- | -- |
| Distributions in excess of net income | (42,054) | -- | -- |
| | ----- | ----- | ----- |
| Total shareholders' equity | 185,434 | -- | -- |
| | ----- | ----- | ----- |
| | \$ 699,247 | \$ 274,937 | \$ 208,976 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of the pro forma combining financial statements.

-8-

Pennsylvania Real Estate Investment Trust
Pro Forma Combining Statement of Income
For the Twelve Months Ended December 31, 2002

(Unaudited)

(In thousands, except per share amounts)

| | Company Historical | First Close Acquisition(A) | New Castle Acquisition(A) | Second Cl Acquisition |
|----------------------------|-----------------------|-------------------------------|------------------------------|--------------------------|
| | ----- | ----- | ----- | ----- |
| Revenues: | | | | |
| Real estate revenues | | | | |
| Base rent | \$ 94,636 | \$ 27,328 | \$ 18,169 | \$ 16,063 |
| Expense reimbursements | 13,068 | 14,297 | 11,011 | 11,828 |
| Percentage rent | 1,948 | 934 | 355 | 294 |
| Lease termination revenue | 1,034 | 1,886 | 10 | 742 |
| Other real estate revenues | 3,913 | 710 | 461 | 708 |
| | ----- | ----- | ----- | ----- |
| Total real estate revenues | 114,599 | 45,155 | 30,006 | 29,635 |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Management company revenue | 11,003 | -- | -- | -- |
| Interest and other income | 711 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total revenues | 126,313 | 45,155 | 30,006 | 29,635 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Property operating expenses | 37,548 | 17,206 | 11,344 | 16,116 |
| Depreciation and amortization | 21,411 | -- | -- | -- |
| General and administrative expenses: | | | | |
| Corporate payroll and benefits | 14,138 | -- | -- | -- |
| Other general and administrative expenses | 10,609 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total general and administrative expenses | 24,747 | -- | -- | -- |
| Interest expense | 28,000 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total expenses | 111,706 | 17,206 | 11,344 | 16,116 |
| | ----- | ----- | ----- | ----- |
| | 14,607 | 27,949 | 18,662 | 13,519 |
| Equity in income of partnerships and joint ventures | 7,449 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Income before minority interest | 22,056 | 27,949 | 18,662 | 13,519 |
| Minority interest in operating partnership | (2,194) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | \$ 19,862 | \$ 27,949 | \$ 18,662 | \$ 13,519 |
| | ===== | ===== | ===== | ===== |
| Basic income from continuing operations per share | \$ 1.23 | | | |
| | ===== | | | |
| Diluted income from continuing operations per share | \$ 1.21 | | | |
| | ===== | | | |
| Weighted average number of shares outstanding: | | | | |
| Basic | 16,162 | | | |
| | ===== | | | |
| Diluted | 16,388 | | | |
| | ===== | | | |

The accompanying notes are an integral part of the pro forma combining financial statements.

-9-

Pennsylvania Real Estate Investment Trust
Pro Forma Combining Statement of Income
For the Three Months Ended March 31, 2003

(Unaudited)

(In thousands, except per share amounts)

| Company | First Close | New Castle | Second C |
|------------|----------------|----------------|----------|
| Historical | Acquisition(A) | Acquisition(A) | Acquisit |
| ----- | ----- | ----- | ----- |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Revenues:

| | | | | |
|----------------------------|-----------|----------|----------|----------|
| Real estate revenues | | | | |
| Base rent | \$ 11,924 | \$ 6,703 | \$ 4,573 | \$ 3,797 |
| Expense reimbursements | 3,902 | 3,910 | 3,089 | 3,111 |
| Percentage rent | 273 | 215 | 203 | 7 |
| Lease termination revenue | 259 | 84 | -- | -- |
| Other real estate revenues | 334 | 235 | 219 | 13 |
| | ----- | ----- | ----- | ----- |
| Total real estate revenue | 16,692 | 11,147 | 8,084 | 7,127 |
| Management company revenue | 2,181 | -- | -- | -- |
| Interest and other income | 142 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total revenues | 19,015 | 11,147 | 8,084 | 7,127 |
| | ----- | ----- | ----- | ----- |

Expenses:

| | | | | |
|---|--------|-------|-------|-------|
| Property operating expenses | 4,899 | 4,762 | 3,163 | 4,351 |
| Depreciation and amortization | 3,513 | -- | -- | -- |
| General and administrative expenses: | | | | |
| Corporate payroll and benefits | 3,636 | -- | -- | -- |
| Other general and administrative expenses | 2,690 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total general and administrative expenses | 6,326 | -- | -- | -- |
| Interest expense | 4,046 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total expenses | 18,784 | 4,762 | 3,163 | 4,351 |
| | ----- | ----- | ----- | ----- |

| | | | | |
|---|----------|----------|----------|----------|
| | 231 | 6,385 | 4,921 | 2,767 |
| Equity in income of partnerships and joint ventures | 1,593 | -- | -- | -- |
| Gains on sales of interests in real estate | 1,191 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Income before minority interest | 3,015 | 6,385 | 4,921 | 2,767 |
| Minority interest in operating partnership | (287) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | \$ 2,728 | \$ 6,385 | \$ 4,921 | \$ 2,767 |
| | ===== | ===== | ===== | ===== |

Basic income from continuing operations per share \$ 0.16
=====

Diluted income from continuing operations per share \$ 0.16
=====

Weighted average number of shares outstanding:
Basic 16,545
=====

Diluted 16,818
=====

The accompanying notes are an integral part of the pro forma combining financial statements.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Pennsylvania Real Estate Investment Trust Notes to Management's Assumptions to Unaudited Pro Forma Combining Financial Information

1. Basis of Presentation

Pennsylvania Real Estate Investment Trust, (collectively with its subsidiaries, the "Company") is a fully integrated, self-administered and self-managed real estate investment trust that acquires, develops, redevelops and operates retail, multifamily and industrial properties. The Company's interest in its properties is held through PREIT Associates, L.P.

2. Adjustments to Pro Forma Combining Balance Sheet

(A) To record the acquisition of Moorestown Mall, The Gallery at Market East and Exton Square Mall (collectively, the "First Close Properties"), the Company's interest in New Castle Associates ("New Castle") and the acquisition of Echelon Mall and Plymouth Meeting Mall (collectively, the "Second Close Properties") based upon preliminary estimates of the fair value of the assets acquired as follows:

| | | |
|---|----|-----------|
| First Close Properties | | |
| Land | \$ | 53,556 |
| Building | | 214,222 |
| | | ----- |
| Investment in real estate | \$ | 267,778 |
| | | ===== |
| | | |
| Accounts receivable | \$ | 472 |
| | | |
| Lease origination value | \$ | 3,815 |
| Acquired above market value leases | | 2,433 |
| Escrows and other credits received at settlement | | 1,156 |
| | | ----- |
| Deferred costs, prepaid real estate taxes and expenses, net | \$ | 7,404 |
| | | ===== |
| | | |
| Mortgages assumed | \$ | (142,496) |
| Debt premium | | (3,693) |
| | | ----- |
| Mortgage notes payable | \$ | (146,189) |
| | | ===== |
| | | |
| Bank loan borrowing | \$ | (123,507) |
| | | |
| Tenant's deposits and deferred rents | \$ | (1,165) |
| | | |
| Accounts payable and accrued expenses | \$ | (1,788) |
| Acquired below market value leases | | (2,288) |
| | | ----- |
| Accrued expenses and other liabilities | \$ | (4,076) |
| | | ===== |
| | | |
| Cash payment | \$ | (717) |

| | |
|---|--------------|
| New Castle | |
| Land | \$ 40,795 |
| Building | 163,183 |
| | ----- |
| Investment in real estate | \$ 203,978 |
| | ===== |
| Accounts receivable | \$ 400 |
| Lease origination value | \$ 1,613 |
| Acquired above market value leases | 1,500 |
| Cherry Hill intangible asset | 1,170 |
| Escrows and other credits received at settlement | 857 |
| | ----- |
| Deferred costs, prepaid real estate and expenses, net | \$ 5,140 |
| | ===== |
| Mortgages assumed | \$ (134,092) |
| Debt premium | (6,882) |
| | ----- |
| Mortgage notes payable | \$ (140,974) |
| | ===== |
| Minority interest (see note (B)) | \$ (34,988) |
| Bank loan borrowing | \$ (28,853) |
| Tenant's deposits and deferred rents | \$ (1,453) |
| Acquired below market value leases | \$ (1,218) |
| Liabilities assumed | (1,490) |
| | ----- |
| Accrued expenses and other liabilities | \$ (2,708) |
| | ===== |
| Cash payment | \$ (542) |
| Second Close Properties | |
| Land | \$ 15,573 |
| Building | 62,293 |
| | ----- |
| Investment in real estate | \$ 77,866 |
| | ===== |
| Accounts receivable | \$ 101 |
| Lease origination value | \$ 2,103 |
| Acquired above market value leases | 1,843 |
| Escrows and other credits received at settlement | 792 |
| | ----- |
| Deferred costs, prepaid real estate taxes and expenses, net | \$ 4,738 |
| | ===== |
| Bank loan borrowing | \$ (80,437) |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

| | |
|--|------------|
| Tenants' deposits and deferred rents | \$ (666) |
| Acquired below market value leases | \$ (863) |
| Liabilities assumed | (739) |
| | ----- |
| Accrued expenses and other liabilities | \$ (1,602) |
| | ===== |

-12-

(B) To record (i) the issuance of 585,422 OP units at a price of \$29.285 per OP Unit in connection with the Company's acquisition of its interest in New Castle Associates, and (ii) the value of the additional consideration that is expected to be paid in the future for the remaining minority interest in New Castle Associates.

3. Adjustments to Pro Forma Combining Statements of Income.

(A) To record the revenue and certain expenses associated with the operations of the First Close Properties, New Castle Associates and the Second Close Properties.

(B) To adjust straight-line rent and record amortization of market value of acquired leases over the remaining terms of the leases.

(C) To (i) record management fees for Cherry Hill Mall and (ii) remove historical management fees and leasing commissions totaling \$1,293,000 for the year ended December 31, 2002 and \$348,000 for the three months ended March 31, 2003 related to Christiana Mall, which the Company will no longer manage as a result of this transaction. The management agreement for Cherry Hill Mall provides for a management fee equal to 5.25% of revenues. Property operating expenses are impacted only by the management fees to be received on Cherry Hill Mall because Christiana Mall's operating expenses were not consolidated by the Company as it had no ownership interest in that property.

(D) To record depreciation expense and amortization of acquired lease costs based on a real estate depreciable base of \$439.7 million and an estimated useful life of 40 years.

(E) To record additional interest expense as follows:

| | Year Ended December 31, 2002 | Three Mo March |
|---|---------------------------------|-------------------|
| | ----- | ----- |
| Mortgage borrowings (1) | | |
| Moorestown Mall \$42.0 million at 4.25% | \$ 1,785 | \$ |
| Exton Square Mall \$100.5 million at 6.95% | 6,947 | |
| Cherry Hill Mall \$73.7 million at 10.6% | 7,447 | |
| Cherry Hill Mall \$60.4 million at 5.0% | 3,000 | |
| | ----- | ----- |
| Total mortgage expense | 19,179 | |
| Bank borrowing of \$232.8 million at 4.30% | 10,010 | |
| Amortization of debt premium | 4,236 | |
| Amortization of deferred financing costs related to the borrowings noted above | 1,550 | |
| | ----- | ----- |

\$ 34,975
 =====

\$
 =====

(1) Mortgage balances are as of the settlement date. The balances amortize over varying periods.

(F) To record (i) additional minority interest resulting from the issuance of OP Units to the New Castle Associates partners which caused an increase in the minority interest percentage to 12.8% and 12.4% for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively, (ii) the minority interest impact of the acquired properties and the pro forma adjustments, resulting in additional minority interest expense, and (iii) the preferred distribution the partners of New Castle (other than PREIT) are entitled to.

-13-

(c) Exhibits:

- 2.1 Agreement of Purchase and Sale among The Rouse Company of Nevada, LLC, The Rouse Company of New Jersey, LLC and PR Cherry Hill Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.1 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.2 Agreement of Purchase and Sale among Echelon Mall Joint Venture, Echelon Acquisition, LLC and PR Echelon Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.2 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.3 Agreement of Purchase and Sale between Gallery at Market East, LLC and PR Gallery I Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.3 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.4 Agreement of Purchase and Sale among The Rouse Company of Nevada, LLC, The Rouse Company of New Jersey, LLC and PR Moorestown Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.4 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.5 Agreement of Purchase and Sale between Plymouth Meeting Property, LLC and PR Plymouth Meeting Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.5 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.6 Agreement of Purchase and Sale between The Rouse Company, L.P. and PR Exton Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.6 to PREIT's

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.

- 2.7 First Amendment to Agreement of Purchase and Sale Plymouth Meeting Mall, dated as of April 28, 2003, by and between Plymouth Meeting Property, LLC and PR Plymouth Meeting Limited Partnership, filed as Exhibit 2.7 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 2.8 First Amendment to Agreement of Purchase and Sale Echelon Mall, dated as of April 28, 2003, by and between Echelon Mall Joint Venture, Echelon Acquisition, LLC and PR Echelon Limited Partnership, filed as Exhibit 2.8 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 2.9+ Contribution Agreement, dated as of April 22, 2003, among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P. and the persons and entities named therein and the joinder to the contribution agreement, filed as Exhibit 2.9 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.

-14-

- 2.10+ Call and Put Option Agreement, dated as of April 28, 2003, among PREIT Associates, L.P., PR New Castle LLC, Pan American Associates and Ivyridge Investment Corp, filed as Exhibit 2.10 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.1 Agreement of Purchase and Sale between New Castle Associates and Christiana Mall, LLC, dated as of March 7, 2003, filed as Exhibit 10.72 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 10.2 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Cherry Hill Mall), filed as Exhibit 10.2 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.3 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of Gallery at Market East, LLC and its affiliates, including The Rouse Company, L.P. (relating to The Gallery at Market East), filed as Exhibit 10.3 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

- 10.4 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Moorestown Mall), filed as Exhibit 10.4 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.5 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Exton Square Mall), filed as Exhibit 10.5 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.6 Security Agreement, dated as of April 28, 2003, by Pan American Associates and Ivyridge Investment Corp. in favor of PREIT Associates, L.P., filed as Exhibit 10.6 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.7 Amended and Restated Agreement of Limited Partnership of New Castle Associates, dated as of April 28, 2003, among PR New Castle LLC, as general partner, and PREIT Associates, L.P., Pan American Associates and Ivyridge Investment Corp., as limited partners, filed as Exhibit 10.7 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.8 Registration Rights Agreement, dated as of April 28, 2003, between Pennsylvania Real Estate Investment Trust and Pan American Associates, filed as Exhibit 10.8 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 15-
- 10.9 Registration Rights Agreement, dated as of April 28, 2003, among Pennsylvania Real Estate Investment Trust, The Albert H. Marta Revocable Inter Vivos Trust, Marta Holdings I, L.P. and Ivyridge Investment Corp, filed as Exhibit 10.9 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.10 Termination of Management and Leasing Agreement, dated as of April 28, 2003, between New Castle Associates and PREIT-RUBIN, Inc, filed as Exhibit 10.10 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.11 Leasing and Management Agreement, dated as of April 28, 2003, between New Castle Associates and PREIT-RUBIN, Inc, filed as Exhibit 10.11 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by

reference.

- 10.12+ Credit Agreement dated as of April 23, 2003 by and among PREIT Associates, L.P., Pennsylvania Real Estate Investment Trust and Wells Fargo Bank, National Association, as agent, filed as Exhibit 10.12 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.13+ Revolving Note, dated April 23, 2003, in the principal amount of \$25,000,000 issued by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.13 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.14+ Term Note, dated April 23, 2003, in the principal amount of \$175,000,000 issued by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.14 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.15+ Guaranty Agreement, dated as of April 23, 2003, by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.15 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.16+ Second Amendment to that certain Credit Agreement dated as of December 28, 2000 as further amended as of April 23, 2003, by Pennsylvania Real Estate Investment Trust, each of the Guarantors thereto and Wells Fargo Bank, National Association, as agent, filed as Exhibit 10.16 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.17* Letter agreement between Lehman Brothers Bank, FSB and Moorestown Mall LLC dated June 3, 2003.
- 10.18* Promissory Note, dated June 3, 2003, in the principal amount of \$64,250,000 issued by Moorestown Mall LLC in favor of Lehman Brothers Bank, FSB.

-16-

- 10.19* Promissory Note, dated May 30, 2003, in the principal amount of \$70,000,000 issued by PR North Dartmouth LLC in favor of Lehman Brothers Holdings, Inc.
- 23* Consent of KPMG LLP.

*Filed herewith.

+ Pursuant to Item 601(b)(2) of Regulation S-K, certain

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

exhibits and schedules have been omitted, copies of which will be furnished to the SEC upon request.

-17-

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: June 19, 2003

By: Jonathan B. Weller

Jonathan B. Weller
President and Chief Operating Officer

-18-

Exhibit Index

| Number | Description |
|--------|--|
| ----- | ----- |
| 2.1 | Agreement of Purchase and Sale among The Rouse Company of Nevada, LLC, The Rouse Company of New Jersey, LLC and PR Cherry Hill Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.1 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference. |
| 2.2 | Agreement of Purchase and Sale among Echelon Mall Joint Venture, Echelon Acquisition, LLC and PR Echelon Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.2 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference. |
| 2.3 | Agreement of Purchase and Sale between Gallery at Market East, LLC and PR Gallery I Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.3 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference. |
| 2.4 | Agreement of Purchase and Sale among The Rouse Company of Nevada, LLC, The Rouse Company of New Jersey, LLC and PR Moorestown Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.4 to PREIT's Annual Report on Form 10-K for the fiscal |

year ended December 31, 2002 is incorporated herein by reference.

- 2.5 Agreement of Purchase and Sale between Plymouth Meeting Property, LLC and PR Plymouth Meeting Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.5 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.6 Agreement of Purchase and Sale between The Rouse Company, L.P. and PR Exton Limited Partnership, dated as of March 7, 2003, filed as Exhibit 2.6 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 2.7 First Amendment to Agreement of Purchase and Sale Plymouth Meeting Mall, dated as of April 28, 2003, by and between Plymouth Meeting Property, LLC and PR Plymouth Meeting Limited Partnership, filed as Exhibit 2.7 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 2.8 First Amendment to Agreement of Purchase and Sale Echelon Mall, dated as of April 28, 2003, by and between Echelon Mall Joint Venture, Echelon Acquisition, LLC and PR Echelon Limited Partnership, filed as Exhibit 2.8 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 2.9+ Contribution Agreement, dated as of April 22, 2003, among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P. and the persons and entities named therein and the joinder to the contribution agreement, filed as Exhibit 2.9 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.

-19-

- 2.10+ Call and Put Option Agreement, dated as of April 28, 2003, among PREIT Associates, L.P., PR New Castle LLC, Pan American Associates and Ivyridge Investment Corp, filed as Exhibit 2.10 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.1 Agreement of Purchase and Sale between New Castle Associates and Christiana Mall, LLC, dated as of March 7, 2003, filed as Exhibit 10.72 to PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 is incorporated herein by reference.
- 10.2 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Cherry Hill

- Mall), filed as Exhibit 10.2 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.3 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of Gallery at Market East, LLC and its affiliates, including The Rouse Company, L.P. (relating to The Gallery at Market East), filed as Exhibit 10.3 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.4 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Moorestown Mall), filed as Exhibit 10.4 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.5 Guaranty Agreement, dated as of April 24, 2003, by PREIT Associates, L.P. in favor of The Rouse Company, L.P. and its affiliates (relating to Exton Square Mall), filed as Exhibit 10.5 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.6 Security Agreement, dated as of April 28, 2003, by Pan American Associates and Ivyridge Investment Corp. in favor of PREIT Associates, L.P, filed as Exhibit 10.6 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.7 Amended and Restated Agreement of Limited Partnership of New Castle Associates, dated as of April 28, 2003, among PR New Castle LLC, as general partner, and PREIT Associates, L.P., Pan American Associates and Ivyridge Investment Corp., as limited partners, filed as Exhibit 10.7 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.8 Registration Rights Agreement, dated as of April 28, 2003, between Pennsylvania Real Estate Investment Trust and Pan American Associates, filed as Exhibit 10.8 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.9 Registration Rights Agreement, dated as of April 28, 2003, among Pennsylvania Real Estate Investment Trust, The Albert H. Marta Revocable Inter Vivos Trust, Marta Holdings I, L.P. and Ivyridge Investment Corp, filed as Exhibit 10.9 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

- 10.10 Termination of Management and Leasing Agreement, dated as of April 28, 2003, between New Castle Associates and PREIT-RUBIN, Inc, filed as Exhibit 10.10 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.11 Leasing and Management Agreement, dated as of April 28, 2003, between New Castle Associates and PREIT-RUBIN, Inc, filed as Exhibit 10.11 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.12+ Credit Agreement dated as of April 23, 2003 by and among PREIT Associates, L.P., Pennsylvania Real Estate Investment Trust and Wells Fargo Bank, National Association, as agent, filed as Exhibit 10.12 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.13+ Revolving Note, dated April 23, 2003, in the principal amount of \$25,000,000 issued by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.13 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.14+ Term Note, dated April 23, 2003, in the principal amount of \$175,000,000 issued by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.14 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.15+ Guaranty Agreement, dated as of April 23, 2003, by PREIT Associates, L.P. in favor of Wells Fargo Bank, National Association, filed as Exhibit 10.15 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.16+ Second Amendment to that certain Credit Agreement dated as of December 28, 2000 as further amended as of April 23, 2003, by Pennsylvania Real Estate Investment Trust, each of the Guarantors thereto and Wells Fargo Bank, National Association, as agent, filed as Exhibit 10.16 to PREIT's Current Report on Form 8-K dated April 28, 2003 and filed May 13, 2003 is incorporated herein by reference.
- 10.17* Letter agreement between Lehman Brothers Bank, FSB and Moorestown Mall LLC dated June 3, 2003.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

- 10.18* Promissory Note, dated June 3, 2003, in the principal amount of \$64,250,000 issued by Moorestown Mall LLC in favor of Lehman Brothers Bank, FSB.
- 10.19* Promissory Note, dated May 30, 2003, in the principal amount of \$70,000,000 issued by PR North Dartmouth LLC in favor of Lehman Brothers Holdings, Inc.
- 23* Consent of KPMG LLP.

*Filed herewith.

+ Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted, copies of which will be furnished to the SEC upon request.

-22-

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONTENTS

| | Page |
|--|------|
| | ---- |
| Independent Auditors' Report - Subject Properties - First Close | F-2 |
| Combined Statements of Revenues and Certain Expenses of Subject Properties - First Close for the Year Ended December 31, 2002 and for the Three-Month Period Ended March 31, 2003 (unaudited) | F-3 |
| Notes to Combined Statements of Revenues and Certain Expenses of Subject Properties - First Close | F-4 |
| Independent Auditors' Report - Subject Properties - Second Close | F-6 |
| Combined Statements of Revenues and Certain Expenses of Subject Properties - Second Close for the Year Ended December 31, 2002 and for the Three-Month Period Ended March 31, 2003 (unaudited) | F-7 |
| Notes to Combined Statements of Revenues and Certain Expenses of Subject Properties - First Close | F-8 |
| Independent Auditors' Report - Cherry Hill Mall | F-10 |
| Statements of Revenues and Certain Expenses of Cherry Hill Mall for the Years Ended December 31, 2002, 2001 and 2000 and for the Three-Month Period Ended March 31, 2003 (unaudited) | F-11 |
| Notes to Statements of Revenues and Certain Expenses of Cherry Hill Mall | F-12 |

F-1

Independent Auditors' Report

The Board of Directors
Pennsylvania Real Estate Investment Trust

We have audited the accompanying combined statement of revenues and certain expenses of the Subject Properties - First Close, as defined in note 1, for the year ended December 31, 2002. This combined financial statement is the responsibility of management of the Subject Properties - First Close. Our responsibility is to express an opinion on this combined financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statement of revenues and certain expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined statement of revenues and certain expenses. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, the accompanying combined statement of revenues and certain expenses excludes certain expenses that would not be comparable with those resulting from the proposed future operations of the Subject Properties - First Close. The accompanying combined statement of revenues and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission Rule 3-14 of Regulation S-X and is not intended to be a complete presentation of the Subject Properties - First Close revenues and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the combined revenues and certain expenses (described in note 2) of the Subject Properties - First Close for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combined statement of revenues and certain expenses for the three-month period ended March 31, 2003 was not audited by us and, accordingly, we do not express an opinion on it.

/s/ KPMG LLP

Baltimore, Maryland
April 29, 2003

F-2

SUBJECT PROPERTIES - FIRST CLOSE

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Combined Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and
Year Ended December 31, 2002

(in thousands)

| | Three-Month Period Ended March 31, 2003 | Year Ended December 31, 2002 |
|---|--|---------------------------------|
| | ----- (Unaudited) | ----- |
| Revenues: | | |
| Minimum rents | \$ 6,355 | \$25,293 |
| Percentage rents | 215 | 934 |
| Temporary tenant rents | 348 | 2,035 |
| Charges for common facilities | 2,325 | 7,520 |
| Charges for heating, ventilating and air conditioning | 175 | 963 |
| Charges for light and power | 492 | 2,081 |
| Charges for real estate taxes | 597 | 2,605 |
| Charges for other recoverable expenses | 321 | 1,128 |
| Lease terminations | 84 | 1,886 |
| Other | 235 | 710 |
| | ----- | ----- |
| | 11,147 | 45,155 |
| | ----- | ----- |
| Certain expenses: | | |
| On-site and other management costs | 117 | 627 |
| Other general and administrative expenses | 293 | 1,239 |
| Temporary tenant expenses | 159 | 739 |
| Marketing expenses | 63 | 279 |
| Common facilities expenses | 2,251 | 6,932 |
| Heating, ventilating and air conditioning expenses | 119 | 554 |
| Tenant light and power expenses | 399 | 1,866 |
| Real estate taxes | 853 | 3,311 |
| Other recoverable expenses | 295 | 1,303 |
| Building maintenance expenses | 25 | 54 |
| Ground rent expenses | 188 | 302 |
| | ----- | ----- |
| | 4,762 | 17,206 |
| | ----- | ----- |
| Revenues in excess of certain expenses | \$ 6,385 | \$27,949 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

SUBJECT PROPERTIES - FIRST CLOSE

Notes to Combined Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and
Year Ended December 31, 2002

(1) Background

In March 2003, Pennsylvania Real Estate Investment Trust ("PREIT") agreed to purchase six shopping malls owned by The Rouse Company ("Rouse"). Five of the properties were acquired directly from Rouse in two closings. The first closing included Exton Square in Exton, Pennsylvania, The Gallery at Market East in Philadelphia, Pennsylvania and Moorestown Mall in Moorestown, New Jersey. These properties are collectively referred to as the Subject Properties - First Close. The second closing included Plymouth Meeting in Plymouth Meeting, Pennsylvania and Echelon Mall in Voorhees, New Jersey. PREIT acquired its interest in Cherry Hill Mall in Cherry Hill, New Jersey indirectly, through New Castle Associates, a related party of PREIT that acquired the property from Rouse.

(2) Summary of Significant Accounting Policies and Other Matters

(a) Basis of Presentation

The accompanying combined statements of revenues and certain expenses relate to the Subject Properties - First Close and have been prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, it is not representative of the actual operations for the periods presented as certain expenses, which may not be comparable to the expenses expected to be incurred by PREIT in the proposed future operations of the Subject Properties - First Close, have been excluded. Expenses excluded consist of management fees, mortgage interest and depreciation and amortization.

The combined statement of revenue and certain expenses for the three-month period ended March 31, 2003 is unaudited; however, in the opinion of management of the Subject Properties - First Close, all adjustments (consisting solely of normal recurring adjustments) necessary for the fair presentation of the combined statement of revenue and certain expenses for the interim period have been included. The results of the interim period are not necessarily indicative of the results for the full year.

(b) Minimum Rents

The straight-line basis is used to recognize minimum rent revenues under leases, which provide for varying rents over their terms.

SUBJECT PROPERTIES - FIRST CLOSE

Notes to Combined Statements of Revenues and Certain Expenses

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

(2) Summary of Significant Accounting Policies and Other Matters, Continued

(c) Percentage Rents

Percentage rent revenues are considered earned when a tenant's sales exceed the minimum annual sales volume required for percentage rent under the terms of the lease agreement.

(d) Management Costs

Management expense includes administrative costs incurred by Rouse which are allocated to subsidiaries and affiliates based primarily on their respective revenues and certain other expenses incurred in the operation of the retail center. These expenses include on-site management costs, leasing costs and certain off-site accounting and other services.

Management and other costs allocated from Rouse aggregated approximately \$267,000 for the three-month period ended March 31, 2003 and \$1,228,000 for the year ended December 31, 2002. Substantially all of these costs were recorded in other management costs and common facilities expenses.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(3) Tenant Leases

Space in the Subject Properties - First Close is leased to approximately 310 tenants. In addition to minimum rents, the majority of the leases provide for percentage rents when the tenants' sales volumes exceed stated amounts as well as other rents which reimburse the Subject Properties - First Close for certain of their operating expenses.

The total minimum rents to be received from tenants under noncancellable operating leases in effect at December 31, 2002, relating to the Subject Properties - First Close, are as follows (in thousands):

| | |
|--------------------|-----------|
| 2003 | \$ 24,359 |
| 2004 | 22,331 |
| 2005 | 20,667 |
| 2006 | 17,460 |
| 2007 | 15,996 |
| Subsequent to 2007 | 41,194 |
| | ----- |
| Total | \$142,007 |
| | ===== |

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

The Board of Directors
Pennsylvania Real Estate Investment Trust

We have audited the accompanying combined statement of revenues and certain expenses of the Subject Properties - Second Close, as defined in note 1, for the year ended December 31, 2002. This combined financial statement is the responsibility of management of the Subject Properties - Second Close. Our responsibility is to express an opinion on this combined financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statement of revenues and certain expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined statement of revenues and certain expenses. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, the accompanying combined statement of revenues and certain expenses excludes certain expenses that would not be comparable with those resulting from the proposed future operations of the Subject Properties - Second Close. The accompanying combined statement of revenues and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission Rule 3-14 of Regulation S-X and is not intended to be a complete presentation of the Subject Properties - Second Close revenues and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the combined revenues and certain expenses (described in note 2) of the Subject Properties - Second Close for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combined statement of revenues and certain expenses for the three-month period ended March 31, 2003 was not audited by us and, accordingly, we do not express an opinion on it.

/s/ KPMG LLP

Baltimore, Maryland
April 29, 2003

F-6

SUBJECT PROPERTIES - SECOND CLOSE

Combined Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and
Year Ended December 31, 2002

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

(in thousands)

| | Three-Month Period Ended March 31, 2003 |
|---|--|
| | ----- (Unaudited) |
| Revenues: | |
| Minimum rents | \$ 3,660 |
| Percentage rents | 79 |
| Temporary tenant rents | 133 |
| Charges for common facilities | 1,597 |
| Charges for heating, ventilating and air conditioning | 323 |
| Charges for light and power | 498 |
| Charges for real estate taxes | 538 |
| Charges for other recoverable expenses | 158 |
| Lease terminations | - |
| Other | 134 |
| | ----- |
| | 7,120 |
| | ----- |
| Certain expenses: | |
| On-site and other management costs | 100 |
| Other general and administrative expenses | 139 |
| Temporary tenant expenses | 62 |
| Marketing expenses | 48 |
| Common facilities expenses | 1,920 |
| Heating, ventilating and air conditioning expenses | 302 |
| Tenant light and power expenses | 439 |
| Real estate taxes | 867 |
| Other recoverable expenses | 182 |
| Building maintenance expenses | 79 |
| Ground rent expenses | 215 |
| | ----- |
| | 4,353 |
| | ----- |
| Revenues in excess of certain expenses | \$ 2,767 |
| | ===== |

The accompanying notes are an integral part of these statements.

F-7

SUBJECT PROPERTIES - SECOND CLOSE

Notes to Combined Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Year Ended December 31, 2002

(1) Background

In March 2003, Pennsylvania Real Estate Investment Trust ("PREIT") agreed to purchase six shopping malls owned by The Rouse Company ("Rouse"). Five of the properties were acquired directly from Rouse in two closings. The first closing included Exton Square in Exton, Pennsylvania, The Gallery at Market East in Philadelphia, Pennsylvania and Moorestown Mall in Moorestown, New Jersey. The second closing included Plymouth Meeting in Plymouth Meeting, Pennsylvania and Echelon Mall in Voorhees, New Jersey. Plymouth Meeting and Echelon Mall are collectively referred to as the Subject Properties - Second Close. PREIT acquired its interest in Cherry Hill Mall in Cherry Hill, New Jersey indirectly, through New Castle Associates, a related party of PREIT that acquired the property from Rouse.

(2) Summary of Significant Accounting Policies and Other Matters

(a) Basis of Presentation

The accompanying combined statements of revenues and certain expenses relate to the Subject Properties - Second Close and have been prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, it is not representative of the actual operations for the periods presented as certain expenses, which may not be comparable to the expenses expected to be incurred by PREIT in the proposed future operations of the Subject Properties - Second Close, have been excluded. Expenses excluded consist of management fees, mortgage interest, depreciation and amortization, and provision for impairment loss.

The combined statement of revenue and certain expenses for the three-month period ended March 31, 2003 is unaudited; however, in the opinion of management of the Subject Properties - Second Close, all adjustments (consisting solely of normal recurring adjustments) necessary for the fair presentation of the combined statement of revenue and certain expenses for the interim period have been included. The results of the interim period are not necessarily indicative of the results for the full year.

(b) Minimum Rents

The straight-line basis is used to recognize minimum rent revenues under leases which provide for varying rents over their terms.

F-8

SUBJECT PROPERTIES - SECOND CLOSE

Notes to Combined Statements of Revenues and Certain Expenses

(2) Summary of Significant Accounting Policies and Other Matters, Continued

(c) Percentage Rents

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

Percentage rent revenues are considered earned when a tenant's sales exceed the minimum annual sales volume required for percentage rent under the terms of the lease agreement.

(d) Management Costs

Management expense includes administrative costs incurred by Rouse which are allocated to subsidiaries and affiliates based primarily on their respective revenues and certain other expenses incurred in the operation of the retail center. These expenses include on-site management costs, leasing costs and certain off-site accounting and other services.

Management and other costs allocated from Rouse aggregated approximately \$194,000 for the three-month period ended March 31, 2003 and \$885,000 for the year ended December 31, 2002. Substantially all of these costs were recorded in other management costs and common facilities expenses.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(3) Tenant Leases

Space in the Subject Properties - Second Close is leased to approximately 230 tenants. In addition to minimum rents, the majority of the leases provide for percentage rents when the tenants' sales volumes exceed stated amounts as well as other rents which reimburse the Subject Properties - Second Close for certain of their operating expenses.

The total minimum rents to be received from tenants under noncancellable operating leases in effect at December 31, 2002, relating to the Subject Properties - Second Close, are as follows (in thousands):

| | |
|--------------------|----------|
| 2003 | \$13,459 |
| 2004 | 12,218 |
| 2005 | 10,540 |
| 2006 | 8,602 |
| 2007 | 7,319 |
| Subsequent to 2007 | 14,689 |
| | ----- |
| Total | \$66,827 |
| | ===== |

F-9

Independent Auditors' Report

The Board of Directors
Pennsylvania Real Estate Investment Trust

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

We have audited the accompanying statements of revenues and certain expenses of Cherry Hill Mall for the years ended December 31, 2002, 2001 and 2000. These financial statements are the responsibility of management of Cherry Hill Mall. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statements of revenues and certain expenses are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of revenues and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statements of revenues and certain expenses. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, the accompanying statements of revenues and certain expenses exclude certain expenses that would not be comparable with those resulting from the proposed future operations of Cherry Hill Mall. The accompanying statements of revenues and certain expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission Rule 3-14 of Regulation S-X and are not intended to be a complete presentation of Cherry Hill Mall's revenues and expenses.

In our opinion, the statements referred to above present fairly, in all material respects, the revenues and certain expenses (described in note 2) of Cherry Hill Mall for the years ended December 31, 2002, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying statement of revenues and certain expenses for the three-month period ended March 31, 2003 was not audited by us and, accordingly, we do not express an opinion on it.

/s/ KPMG LLP

Baltimore, Maryland
April 29, 2003

F-10

CHERRY HILL MALL

Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and Years Ended
December 31, 2002, 2001 and 2000

(in thousands)

Three-Month
Period ended

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 8-K/A

| | March 31, 2003 ----- (Unaudited) | Year ended Dec ----- 2002 ----- | 2001 ----- |
|---|--|--|-------------------|
| Revenues: | | | |
| Minimum rents | \$ 4,358 | \$16,862 | \$15,057 |
| Percentage rents | 203 | 355 | 465 |
| Temporary tenant rents | 215 | 1,307 | 1,122 |
| Charges for common facilities | 1,426 | 4,294 | 3,677 |
| Charges for heating, ventilating and air conditioning | 213 | 1,071 | 1,268 |
| Charges for light and power | 250 | 1,183 | 1,070 |
| Charges for real estate taxes | 1,032 | 3,963 | 3,482 |
| Charges for other recoverable expenses | 168 | 500 | 295 |
| Lease terminations | - | 10 | 445 |
| Other | 219 | 461 | 631 |
| | ----- 8,084 | ----- 30,006 | ----- 27,512 |
| Certain expenses: | | | |
| On-site and other management costs | 45 | 233 | 377 |
| Other general and administrative expenses | 155 | 316 | 265 |
| Temporary tenant expenses | 51 | 193 | 173 |
| Marketing expenses | 55 | 177 | 211 |
| Common facilities expenses | 1,106 | 3,625 | 3,137 |
| Heating, ventilating and air conditioning expenses | 108 | 581 | 840 |
| Tenant light and power expenses | 209 | 1,094 | 926 |
| Real estate taxes | 1,270 | 4,524 | 4,202 |
| Other recoverable expenses | 151 | 512 | 279 |
| Building maintenance expenses | 13 | 89 | 75 |
| | ----- 3,163 | ----- 11,344 | ----- 10,485 |
| Revenues in excess of certain expenses | \$ 4,921 ===== | \$18,662 ===== | \$17,027 ===== |

The accompanying notes are an integral part of these statements.

F-11

CHERRY HILL MALL

Notes to Statements of Revenues and Certain Expenses

Three-Month Period Ended March 31, 2003 (unaudited) and

Years Ended December 31, 2002, 2001 and 2000

(1) Background

In March 2003, Pennsylvania Real Estate Investment Trust ("PREIT") agreed to purchase six shopping malls owned by The Rouse Company ("Rouse"). Five of the properties were acquired directly from Rouse in two closings. The first closing included Exton Square in Exton, Pennsylvania, The Gallery at Market East in Philadelphia, Pennsylvania and Moorestown Mall in Moorestown, New Jersey. The second closing included Plymouth Meeting in Plymouth Meeting, Pennsylvania and Echelon Mall in Voorhees, New Jersey. PREIT acquired its interest in Cherry Hill Mall in Cherry Hill, New Jersey indirectly, through New Castle Associates, a related party of PREIT that acquired the property from Rouse.

(2) Summary of Significant Accounting Policies and Other Matters

(a) Basis of Presentation

The accompanying combined statements of revenues and certain expenses relate to Cherry Hill Mall and have been prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they are not representative of the actual operations for the periods presented as certain expenses, which may not be comparable to the expenses expected to be incurred by PREIT in the proposed future operations of Cherry Hill Mall, have been excluded. Expenses excluded consist of management fees, mortgage interest and depreciation and amortization.

The combined statement of revenue and certain expenses for the three-month period ended March 31, 2003 is unaudited; however, in the opinion of management of Cherry Hill Mall, all adjustments (consisting solely of normal recurring adjustments) necessary for the fair presentation of the combined statement of revenue and certain expenses for the interim period have been included. The results of the interim period are not necessarily indicative of the results for the full year.

(b) Minimum Rents

The straight-line basis is used to recognize minimum rent revenues under leases which provide for varying rents over their terms.

F-12

CHERRY HILL MALL

Notes to Statements of Revenues and Certain Expenses

(2) Summary of Significant Accounting Policies and Other Matters, Continued

(c) Percentage Rents

Percentage rent revenues are considered earned when a tenant's sales exceed the minimum annual sales volume required for percentage rent under the terms of the lease agreement.

(d) Management Costs

Management expense includes administrative costs incurred by Rouse which are allocated to subsidiaries and affiliates based primarily on their respective revenues and certain other expenses incurred in the operation of the retail center. These expenses include on-site management costs, leasing costs and certain off-site accounting and other services.

Management and other costs allocated from Rouse aggregated approximately \$90,000 for the three-month period ended March 31, 2003 and \$422,000, \$459,000 and \$404,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Substantially all of these costs were recorded in other management costs and common facilities expenses.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(3) Tenant Leases

Space in Cherry Hill Mall is leased to approximately 160 tenants. In addition to minimum rents, the majority of the leases provide for percentage rents when the tenants' sales volumes exceed stated amounts as well as other rents which reimburse Cherry Hill Mall for certain of their operating expenses.

The minimum rents to be received from tenants under noncancellable operating leases in effect at December 31, 2002, are as follows (in thousands):

| | |
|--------------------|----------|
| 2003 | \$17,610 |
| 2004 | 15,575 |
| 2005 | 13,669 |
| 2006 | 12,095 |
| 2007 | 10,411 |
| Subsequent to 2007 | 25,730 |
| | ----- |
| Total | \$95,090 |
| | ===== |