

FEDERAL REALTY INVESTMENT TRUST

Form 10-K/A

March 26, 2004

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

FORM 10-K/A

Amendment No. 1

Annual report pursuant to the Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2003

Or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-07533

**FEDERAL REALTY INVESTMENT TRUST**

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

Maryland

52-0782497

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(State of Organization)

(IRS Employer Identification No.)

1626 East Jefferson Street, Rockville, Maryland

20852

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(Address of Principal Executive Offices)

(Zip Code)

(301) 998-8100

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(Registrant's Telephone Number,  
Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of Each Class</u>  | <u>Name Of Each Exchange On Which Registered</u> |
|---|--|
| Common Shares of Beneficial Interest, \$.01 par value per share, with associated Common Share Purchase Rights | New York Stock Exchange                          |
| 8.5% Series B Cumulative Redeemable Preferred Shares  | New York Stock Exchange                          |

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of Beneficial Interest, par value \$.01 per share,  
(Liquidation Preference \$25.00 per share)

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).  Yes  No

The aggregate market value of the Registrant's common shares held by non-affiliates of the Registrant, based upon the closing sales price of the Registrant's common shares on June 30, 2003 was \$1.569 billion.

The number of Registrant's common shares outstanding on March 9, 2004 was 49,221,894.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission for its 2004 annual meeting of shareholders to be held in May 2004 are incorporated by reference into Part III hereof.

**EXPLANATORY NOTE**

Federal Realty Investment Trust is filing this Form 10-K/A to correct the following errors and omissions with respect to its Form 10-K for the fiscal year ended December 31, 2003: (i) the following typographical errors in Financial Statement Schedule III - Summary of Real Estate and Accumulated Depreciation for Clifton, the encumbrance in Column B should have been shown as \$3,256,000 and not \$3,556,000; for Mount Vernon Plaza, the land value in Column E should have been zero and not \$12,026,646; for FR Plaza del Mercado, LLC, the Cost Capitalized Subsequent to Acquisition in Column D should have been \$16,590 and not \$787,590; and the Total for Cost Capitalized Subsequent to Acquisition should have been \$1,261,930,013 and not \$1,361,930,013; (ii) the Trust's Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends was inadvertently omitted as an exhibit from the original filing; and (iii) the Trust's list of subsidiaries, which was filed as Exhibit 21.1 to the Form 10-K, was inadvertently omitted from the list of Exhibits contained in Item 15(a)(3).

With the exceptions of the foregoing corrections, no other changes have been made to the Trust's Consolidated Financial Statements or Financial Statement Schedules and the Trust's Form 10-K for the fiscal year ended December 31, 2003 has not otherwise been updated.

**PART II**

**Item 8. Financial Statements and Supplementary Data**

**NOTICE REGARDING ARTHUR ANDERSEN LLP**

Section 11(a) of the Securities Act of 1933, as amended, provides that if any part of a registration statement at the time it becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to the registration statement (unless it is proved that at the time of the acquisition the person knew of the untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement or as having prepared or certified any report or valuation which is used in connection with the registration statement with respect to the statement in the registration statement, report or valuation which purports to have been prepared or certified by the accountant.

Prior to the date of the filing of this Form 10-K, the Arthur Andersen LLP partners who reviewed our audited financial statements contained herein resigned from Arthur Andersen LLP and Arthur Andersen LLP was convicted for obstruction of justice and elected to cease practicing before the SEC in August 2002. As a result, after reasonable efforts, we have been unable to obtain Arthur Andersen LLP's written consent to the incorporation by reference into our previously filed Registration Statements File No. 333-100819, 333-84210, 333-97945, 333-63619, File No. 33-63687, File No. 33-63955, File No. 33-15264 and File No. 33-55111 and in their related prospectuses (the Prior Registration Statements ) of its audit report with respect to our financial statements for the fiscal year ended December 31, 2001.

Under these circumstances, Rule 437a under the Securities Act permits us to file this Form 10-K without a written consent from Arthur Andersen LLP. Accordingly, Arthur Andersen LLP will not be liable to persons acquiring our securities registered pursuant to the Prior Registration Statements under Section 11(a) of the Securities Act because it has not consented to being named as an expert in the Prior Registration Statements.

**Index to Consolidated Financial Statements**

|   | <b>Page No.</b> |
|---|-----------------|
| Report of Independent Certified Public Accountants Grant Thornton LLP | F1              |
| Report of Independent Public Accountants Arthur Andersen LLP          | F2              |
| Consolidated Balance Sheets   | F3              |
| Consolidated Statements of Operations                                 | F4              |
| Consolidated Statements of Common Shareholders Equity                 | F5              |
| Consolidated Statements of Cash Flows                                 | F6              |
| Notes to Consolidated Financial Statements                            | F7 F29          |
| Financial Statement Schedules   |                 |
| Schedule III Summary of Real Estate and Accumulated Depreciation      | F30 F33         |
| Schedule IV Mortgage Loans on Real Estate                             | F34 F35         |

## Report of Independent Certified Public Accountants

Trustees and Shareholders of Federal Realty Investment Trust

We have audited the consolidated balance sheet of Federal Realty Investment Trust (a Maryland real estate investment trust) (the Trust) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, common shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Federal Realty Investment Trust and subsidiaries as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated February 11, 2002.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Federal Realty Investment Trust and subsidiaries as of December 31, 2003 and 2002, and the consolidated results of its operations and its consolidated cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedules III and IV for the years ended December 31, 2003 and 2002. In our opinion, these schedules present fairly, in all material respects, the information therein when considered in relation to the basic financial statements taken as a whole.

As discussed above, the consolidated financial statements of Federal Realty Investment Trust and subsidiaries as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been restated to reflect discontinued operations. We have audited the adjustments described in Note 1 that were applied to restate the 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 financial statements of the Trust other than with respect to such adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Vienna, Virginia  
February 5, 2004

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Trustees and Shareholders of Federal Realty Investment Trust:

We have audited the accompanying consolidated balance sheets of Federal Realty Investment Trust (a Maryland real estate investment trust) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, common shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Trust's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federal Realty Investment Trust and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The financial statement schedules included on pages F-29 through F-34 of the Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Vienna, Virginia  
February 11, 2002

*Note: As permitted by Rule 2-02(e) of Regulation S-X promulgated under the Securities Act, this is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the filing of our Form 10-K for the fiscal year ended December 31, 2001. After reasonable efforts, we have been unable to have Arthur Andersen LLP reissue this audit report in connection with the filing of this Form 10-K. See Item 8. Financial Statements and Supplemental Data - Notice Regarding Arthur Andersen LLP for a further discussion. The consolidated balance sheet as of December 31, 2000, and the related consolidated statements of operations, changes in shareholders' equity and other comprehensive income, and cash flows for the two fiscal years ended December 31, 2000 referred to in this report have not been included in the accompanying financial statements or schedules. In addition, Arthur Andersen's audit report relates to the financial statements of the Trust for 2000 and 2001 before restatement adjustments to reflect discontinued operations. The restatement adjustments for these years have been audited by Grant Thornton LLP.*



**Federal Realty Investment Trust**  
**CONSOLIDATED BALANCE SHEETS**

|  | <b>December 31,<br/>2003</b> | <b>December 31,<br/>2002</b> |
|--|------------------------------|------------------------------|
| (in thousands, except share data)  |                              |                              |
| <b>ASSETS</b>  |                              |                              |
| Real estate, at cost   |                              |                              |
| Operating  | \$ 2,342,315                 | \$ 1,940,312                 |
| Development  | 127,834                      | 340,488                      |
| Discontinued operations  |                              | 26,026                       |
|  | 2,470,149                    | 2,306,826                    |
| Less accumulated depreciation and amortization   | (514,177)                    | (450,697)                    |
|  | 1,955,972                    | 1,856,129                    |
| Net real estate investments  |                              |                              |
| Cash and cash equivalents  | 34,968                       | 23,123                       |
| Mortgage notes receivable  | 41,500                       | 35,577                       |
| Accounts and notes receivable  | 31,207                       | 18,722                       |
| Prepaid expenses and other assets, principally lease<br>commissions and property taxes       | 69,335                       | 57,257                       |
| Debt issuance costs, net of accumulated amortization of<br>\$3,111 and \$6,344, respectively | 10,453                       | 8,570                        |
|  | \$ 2,143,435                 | \$ 1,999,378                 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                              |                              |
| Liabilities  |                              |                              |
| Obligations under capital leases   | \$ 159,486                   | \$ 104,395                   |
| Mortgages and construction loans payable   | 254,871                      | 279,417                      |
| Notes payable  | 361,323                      | 207,711                      |
| Accounts payable and accrued expenses  | 61,018                       | 79,517                       |
| Dividends payable  | 26,021                       | 24,356                       |
| Security deposits  | 7,208                        | 6,685                        |
| Prepaid rents  | 17,552                       | 13,644                       |
| Senior notes and debentures  | 535,000                      | 535,000                      |
| 5 1/4% Convertible subordinated debentures   |                              | 75,000                       |
|  | \$ 1,532,938                 | \$ 1,248,627                 |

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|   |                     |                     |
|---|---------------------|---------------------|
| Total liabilities   | 1,422,479           | 1,325,725           |
| Minority interests  | 29,582              | 29,366              |
| Commitments and contingencies   |                     |                     |
| Shareholders' equity  |                     |                     |
| Preferred stock, authorized 15,000,000 shares, \$.01 par:   |                     |                     |
| 7.95% Series A Cumulative Redeemable Preferred Shares,<br>(stated at liquidation preference \$25 per share), 4,000,000<br>shares issued in 1997 |                     | 100,000             |
| 8.5% Series B Cumulative Redeemable Preferred Shares,<br>(stated at liquidation preference \$25 per share), 5,400,000<br>shares issued in 2001  | 135,000             | 135,000             |
| Common shares of beneficial interest, \$.01 par, 100,000,000<br>shares authorized, 50,670,851 and 44,996,382 issued,<br>respectively            | 506                 | 450                 |
| Additional paid in capital  | 980,227             | 818,290             |
| Accumulated dividends in excess of Trust net income   | (386,738)           | (368,839)           |
|   | <u>728,995</u>      | <u>684,901</u>      |
| Less:   |                     |                     |
| 1,470,275 and 1,461,147 common shares in treasury at cost,<br>respectively  | (28,445)            | (28,193)            |
| Deferred compensation on restricted shares  | (5,474)             | (2,657)             |
| Notes receivable from employee stock plans  | (3,615)             | (5,151)             |
| Accumulated other comprehensive income (loss)   | (87)                | (4,613)             |
|   | <u>691,374</u>      | <u>644,287</u>      |
| Total shareholders' equity  | <u>\$ 2,143,435</u> | <u>\$ 1,999,378</u> |

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

## Federal Realty Investment Trust

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Year ended December 31,               |                |                |
|--|---------------------------------------|----------------|----------------|
|  | 2003                                  | 2002           | 2001           |
|  | (In thousands, except per share data) |                |                |
| Revenue  |                                       |                |                |
| Rental income  | \$ 334,697                            | \$ 295,016     | \$ 269,288     |
| Other property income  | 17,800                                | 15,468         | 13,707         |
| Interest and other income                                    | 5,379                                 | 5,156          | 6,590          |
|  | <u>357,876</u>                        | <u>315,640</u> | <u>289,585</u> |
| Expenses   |                                       |                |                |
| Rental   | 83,447                                | 72,990         | 61,619         |
| Real estate taxes  | 34,596                                | 30,687         | 27,646         |
| Interest   | 75,232                                | 65,058         | 69,313         |
| Administrative   | 11,820                                | 13,790         | 14,281         |
| Restructuring  |                                       | 22,269         |                |
| Depreciation and amortization                                | 75,089                                | 63,777         | 58,231         |
|  | <u>280,184</u>                        | <u>268,571</u> | <u>231,090</u> |
| Income before minority interests and discontinued operations | 77,692                                | 47,069         | 58,495         |
| Minority Interests   | (4,670)                               | (4,112)        | (5,170)        |
| Income from continuing operations                            | <u>73,022</u>                         | <u>42,957</u>  | <u>53,325</u>  |
| Operating income from discontinued operations                | 1,422                                 | 2,876          | 6,246          |
| Gain on sale of real estate                                  | 20,053                                | 9,454          | 9,185          |
| Income from discontinued operations                          | <u>21,475</u>                         | <u>12,330</u>  | <u>15,431</u>  |
| <b>Net income</b>  | <b>94,497</b>                         | <b>55,287</b>  | <b>68,756</b>  |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Dividends on preferred stock   | (15,084)          | (19,425)          | (9,034)           |
| Preferred stock redemption excess of redemption cost over carrying value | (3,423)           |                   |                   |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income available for common shareholders                             | \$ 75,990         | \$ 35,862         | \$ 59,722         |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Basic earnings per common share:   |                   |                   |                   |
| Income from continuing operations  | \$ 1.15           | \$ 0.57           | \$ 1.13           |
| Discontinued operations  | 0.45              | 0.29              | 0.39              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
|  | \$ 1.60           | \$ 0.86           | \$ 1.52           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Weighted average number of common shares, basic                          | 47379             | 41624             | 39164             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Diluted earnings per common share:                                       |                   |                   |                   |
| Income from continuing operations  | \$ 1.15           | \$ 0.57           | \$ 1.13           |
| Discontinued operations  | 0.44              | 0.28              | 0.39              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
|  | \$ 1.59           | \$ 0.85           | \$ 1.52           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Weighted average number of common shares, diluted                        | 48619             | 42882             | 40266             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

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

## Federal Realty Investment Trust

## CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

|  | Year ended December 31, |                     |                                  |                   |                     |                                  |                   |                     |                   |
|--|-------------------------|---------------------|----------------------------------|-------------------|---------------------|----------------------------------|-------------------|---------------------|-------------------|
|  | 2003                    |                     |                                  | 2002              |                     |                                  | 2001              |                     |                   |
|  | Shares                  | Amount              | Additional<br>Paid-in<br>Capital | Shares            | Amount              | Additional<br>Paid-in<br>Capital | Shares            | Amount              | Ad<br>P<br>C      |
| (in thousands, except share data)                                    |                         |                     |                                  |                   |                     |                                  |                   |                     |                   |
| <b>Continued Operations</b>  |                         |                     |                                  |                   |                     |                                  |                   |                     |                   |
| Shares of Beneficial   |                         |                     |                                  |                   |                     |                                  |                   |                     |                   |
| Balance, beginning of year   | 44,996,382              | \$ 450              | \$ 818,290                       | 41,524,165        | \$ 417              | \$ 730,835                       | 40,910,972        | \$ 410              | \$ 730,835        |
| Exercise of stock options  | 2,124,869               | 21                  | 50,749                           | 951,971           | 9                   | 20,857                           | 22,066            |                     |                   |
| Shares issued under dividend<br>reinvestment plan                    | 109,835                 | 1                   | 3,541                            | 134,247           | 1                   | 3,488                            | 159,234           |                     | 2                 |
| Issuance and Restricted Shares<br>net of Restricted Shares           | 138,568                 | 1                   | 3,960                            | 98,092            |                     | 2,468                            | 96,657            |                     | 2                 |
| Exercise of shares in public offering                                | 3,236,245               | 32                  | 98,368                           | 2,185,000         | 22                  | 56,631                           |                   |                     |                   |
| Conversion of preferred stock<br>to common                           |                         |                     | 3,423                            |                   |                     |                                  |                   |                     |                   |
| Shares issued to purchase operating<br>partnership units             | 64,952                  | 1                   | 1,896                            | 100,000           | 1                   | 2,769                            |                   |                     |                   |
| Issuance of 8.5% Series B Cumulative<br>Preferred Shares             |                         |                     |                                  |                   |                     |                                  |                   |                     |                   |
| Accelerated vesting of options and<br>restricted shares              |                         |                     |                                  |                   |                     | 1,165                            |                   |                     |                   |
| Shares issued to purchase<br>operating partnership interest          |                         |                     |                                  | 2,907             |                     | 77                               | 335,236           |                     | 3                 |
| <b>Balance, end of period</b>  | <b>50,670,851</b>       | <b>\$ 506</b>       | <b>\$ 980,227</b>                | <b>44,996,382</b> | <b>\$ 450</b>       | <b>\$ 818,290</b>                | <b>41,524,165</b> | <b>\$ 417</b>       | <b>\$ 730,835</b> |
| <b>Accumulated Dividends in Excess<br/>of Net Income</b>             |                         |                     |                                  |                   |                     |                                  |                   |                     |                   |
| Balance, beginning of year   |                         | \$ (368,839)        |                                  |                   | \$ (322,428)        |                                  |                   | \$ (306,287)        |                   |
| Income   |                         | 94,497              |                                  |                   | 55,287              |                                  |                   | 68,756              |                   |
| Dividends declared to common<br>shareholders                         |                         | (93,889)            |                                  |                   | (82,273)            |                                  |                   | (75,863)            |                   |
| Dividends declared to preferred<br>shareholders and redemption costs |                         | (18,507)            |                                  |                   | (19,425)            |                                  |                   | (9,034)             |                   |
| <b>Balance, end of period</b>  |                         | <b>\$ (386,738)</b> |                                  |                   | <b>\$ (368,839)</b> |                                  |                   | <b>\$ (322,428)</b> |                   |

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|  |                   |                   |                   |                   |                                     |
|--|-------------------|-------------------|-------------------|-------------------|-------------------------------------|
| Shares of Beneficial<br>in Treasury      |                   |                   |                   |                   |                                     |
| , beginning of year                      | (1,461,147)       | \$ (28,193)       | (1,452,926)       | \$ (27,990)       | (1,441,594) \$ (27,753)             |
| ance and Restricted Shares               | (9,128)           | (252)             | (8,221)           | (203)             | (11,322) (237)                      |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| , end of period                          | (1,470,275)       | \$ (28,445)       | (1,461,147)       | \$ (28,193)       | (1,452,916) \$ (27,990)             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| Compensation on<br>ed Shares             |                   |                   |                   |                   |                                     |
| , beginning of year                      | -153,993          | \$ (2,657)        | (666,656)         | \$ (15,005)       | (735,875) \$ (17,254)               |
| ance and Restricted Shares               | -118,400          | (3,371)           | (73,821)          | (1,763)           | (61,369) (830)                      |
| net of forfeitures                       | -118,400          | (3,371)           | (73,821)          | (1,763)           | (61,369) (830)                      |
| of Performance and                       | 51,727            | 554               | 586,484           | 14,111            | 130,588 3,079                       |
| ed Shares                                | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| , end of period                          | (220,666)         | \$ (5,474)        | (153,993)         | \$ (2,657)        | (666,656) \$ (15,005)               |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| ptions receivable from<br>ee stock plans |                   |                   |                   |                   |                                     |
| , beginning of year                      | -184,063          | \$ (5,151)        | (218,555)         | \$ (7,245)        | (242,638) \$ (6,734)                |
| tion loans issued                        | -87,641           | (1,999)           | (93,469)          | (2,986)           | (3,333) (973)                       |
| tion loans paid                          | 115,430           | 3,535             | 127,961           | 5,080             | 27,416 462                          |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| , end of period                          | (156,274)         | \$ (3,615)        | (184,063)         | \$ (5,151)        | (218,555) \$ (7,245)                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> <u>          </u> |
| lated other comprehensive<br>(loss)      |                   |                   |                   |                   |                                     |
| , beginning of year                      |                   | \$ (4,613)        |                   | \$ (4,293)        | \$                                  |
| due to recognizing                       |                   | (92)              |                   | (44)              | 49                                  |
| in on securities                         |                   | (92)              |                   | (44)              | 49                                  |
| in valuation on interest rate            |                   | 3,563             |                   | (276)             | (4,342)                             |
| interest rate hedge                      |                   | 3,563             |                   | (276)             | (4,342)                             |
| ion                                      |                   | <u>1,055</u>      |                   | <u>          </u> | <u>          </u>                   |
| , end of period                          |                   | \$ (87)           |                   | \$ (4,613)        | \$ (4,293)                          |
|  |                   | <u>          </u> |                   | <u>          </u> | <u>          </u>                   |
| hensive income                           |                   | \$ 94,497         |                   | \$ 55,287         | \$ 68,756                           |
| me                                       |                   | (92)              |                   | (44)              | 49                                  |

|   |                  |                   |                   |
|---|------------------|-------------------|-------------------|
| due to recognizing loss on<br>as<br>in valuation on interest rate | 3,563            | (276)             | (4,342)           |
| interest rate hedge<br>ion  | <u>1,055</u>     | <u>          </u> | <u>          </u> |
| mprehensive income  | <u>\$ 99,023</u> | <u>\$ 54,967</u>  | <u>\$ 64,463</u>  |

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

## Federal Realty Investment Trust

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2003                    | 2002      | 2001      |
| (In thousands)   |                         |           |           |
| <b>OPERATING ACTIVITIES</b>  |                         |           |           |
| Net income   | \$ 94,497               | \$ 55,287 | \$ 68,756 |
| Items not requiring cash outlays   |                         |           |           |
| Depreciation and amortization, including discontinued operations                   | 74,616                  | 64,529    | 59,914    |
| Gain on sale of real estate  | (20,053)                | (19,101)  | (9,185)   |
| Loss on abandoned developments held for sale                                       |                         | 9,647     |           |
| Non-cash portion of restructuring expense  |                         | 19,586    |           |
| Other, net   | 3,649                   | 4,792     | 1,041     |
| Changes in assets and liabilities  |                         |           |           |
| Increase in accounts and notes receivable  | (12,485)                | (3,239)   | (4,641)   |
| Increase in prepaid expenses and other assets before depreciation and amortization | (22,614)                | (19,762)  | (18,305)  |
| Increase in operating accounts payable, security deposits and prepaid rent         | 4,147                   | 2,996     | 4,132     |
| Increase in accrued expenses   | 634                     | 4,334     | 7,736     |
| Net cash provided by operating activities  | 122,391                 | 119,069   | 109,448   |
| <b>INVESTING ACTIVITIES</b>  |                         |           |           |
| Acquisition of real estate   | (50,629)                |           | (61,415)  |
| Capital expenditures - development   | (123,883)               | (221,357) | (158,048) |
| Capital expenditures - other   | (50,641)                | (43,579)  | (41,013)  |
| Santana Row fire insurance proceeds reducing cost basis                            | 95,895                  | 21,000    |           |
| Proceeds from sale of real estate  | 43,909                  | 62,544    | 25,063    |
| (Issuance) repayment of mortgage notes receivable, net                             | (5,923)                 | 5,648     | 3,275     |
| Net cash used in investing activities  | (91,272)                | (175,744) | (232,138) |
| <b>FINANCING ACTIVITIES</b>  |                         |           |           |
| Borrowing (repayment) of short-term debt, net                                      | 28,750                  | 27,000    | (34,000)  |
| (Repayment) proceeds from mortgage and construction financing, net of costs        |                         | (60,718)  | 145,427   |
| Increase in term notes to banks, net   | 125,000                 |           |           |
| Note issuance (repayment), net of costs  |                         | 148,746   |           |
| Issuance of Series B Preferred shares, net of costs                                |                         |           | 130,225   |



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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Repayment of Series A Preferred shares                     | (100,000)         |                   |                   |
| Issuance of common shares, net of subscriptions receivable | 151,614           | 76,701            | 398               |
| Payments on mortgages, capital leases and notes payable    | (117,913)         | (29,627)          | (31,550)          |
| Dividends paid   | (104,802)         | (96,461)          | (80,593)          |
| (Decrease) increase in minority interest, net              | (1,923)           | (3,406)           | (1,011)           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash (used in) provided by financing activities        | (19,274)          | 62,235            | 128,896           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Increase in cash   | 11,845            | 5,560             | 6,206             |
| Cash at beginning of year                                  | 23,123            | 17,563            | 11,357            |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash at end of year  | \$ 34,968         | \$ 23,123         | \$ 17,563         |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

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

Federal Realty Investment Trust  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2003, 2002 and 2001

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Federal Realty Investment Trust (the Trust) is an equity real estate investment trust specializing in the ownership, management, development and redevelopment of high quality community and neighborhood shopping centers and main street mixed-use properties located in densely developed urban and suburban areas in strategic metropolitan markets in the Mid-Atlantic and Northeast regions and California.

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

Our consolidated financial statements include the accounts of the Trust, its corporate subsidiaries, and numerous partnerships and limited liability companies, all of which we control. The equity interests of other investors are reflected as investors' interest in consolidated assets. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interests in joint ventures which we do not control or manage using the equity method of accounting.

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

*Revenue Recognition and Accounts Receivable.* Leases with tenants are classified as operating leases. Minimum rents are recognized on a straight-line basis over the terms of the related leases net of valuation adjustments based on management's assessment of credit, collection and other business risk. Percentage rents, which represent additional rents based on gross tenant sales, are recognized at the end of the lease year or other period in which tenant sales thresholds have been reached and the percentage rents are due. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the expenditures occurred. We make estimates of the collectibility of our accounts receivable related to base rents, including straight line rentals, expense reimbursements and other revenue or income. In some cases the ultimate collectibility of these claims extends beyond one year. We generally reserve for straight-line rents due beyond ten years due to uncertainty of collection.

*Real Estate.* Land, buildings and real estate under development are recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives range generally from 35 years to a maximum of 50 years on buildings and improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major improvements are capitalized and depreciated over the life of the lease or their estimated useful life, respectively. Upon termination of a lease, undepreciated tenant improvement costs are charged to operations if the assets are replaced and the asset and the corresponding accumulated depreciation are retired. Minor improvements, furniture and equipment are capitalized and depreciated over useful lives ranging from three to 15 years. In accordance with Statement of Financial Accounting Standard ( SFAS ) No. 66, *Accounting for Sales of Real Estate* , sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement. The gain or loss resulting from the sale of properties is included in net income at the time of sale.

We evaluate the carrying value of our long-lived assets in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* . In cases where particular assets are being held for sale, impairment is based on whether the fair value (estimated sales price less costs of disposal) of each individual property to be sold is less than the net book value. Otherwise, impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If a property is impaired, its basis is adjusted to its estimated fair market value.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (effective for us on January 1, 2002). SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly-acquired, and broadens the presentation of discontinued operations to include components of an entity comprising operations and cash flows that can be distinguished, operationally and for financial reporting purposes from the rest of the entity.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses accounting and processing for costs associated with exit or disposal activities. SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Trust commits to an exit plan. In addition, SFAS No. 146 states that the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. This pronouncement has not had a material impact on our financial position or results of operations.

When applicable as lessee, we classify our leases of land and buildings as operating or capital leases in accordance with the provisions of SFAS No. 13, *Accounting for Leases* .

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate including applicable salaries and their related direct costs are capitalized. The capitalized costs associated with developments, redevelopments and leasing are depreciated or amortized over the life of the improvement or lease, whichever is shorter. Unamortized leasing costs are charged to operations if the applicable tenant vacates before the expiration of its lease.

Interest costs on developments and major redevelopments are capitalized as part of the development and redevelopment until it is placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, i.e. when the asset is ready for its intended use. Generally rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from the completion of major construction activity.

*Debt Issue Costs.* Costs related to the issuance of debt instruments are capitalized and are amortized as interest expense over the life of the related issue using the effective interest method. Upon conversion or in the event of early redemption, any unamortized costs are charged to operations.

*Cash and Cash Equivalents.* We define cash as cash on hand, demand deposits with financial institutions and short term liquid investments with an initial maturity under three months. Cash balances in individual banks may exceed insurable amounts.

*Risk Management.* We enter into derivative contracts, which qualify as cash flow hedges under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, in order to manage interest rate risk. Derivatives are not purchased for speculation. During 2001, to hedge our exposure to interest rates on our \$125 million term loan, we entered into interest rate swaps, which fixed the LIBOR interest rate on that term loan at 5.27%. The interest rate on this term loan was LIBOR plus 95 basis points, thus fixing the interest rate at 6.22% on notional amounts totaling \$125 million. The swaps were documented as cash flow hedges and designated as effective at inception of the swap contract. Consequently, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within shareholders' equity and either a derivative instrument asset or liability is recorded on the balance sheet. At December 31, 2002, a cumulative unrealized loss of \$4.6 million, representing the difference between the then current market value and the 6.22% fixed interest rate on the swap, was recorded in other comprehensive income with a corresponding derivative liability on the balance sheet. In October 2003, we unwound the interest rate swaps which were due to expire December 19, 2003 at a cost of approximately \$1.1 million. There were no open derivative contracts at December 31, 2003. In January 2004, to hedge our exposure to interest rates on our \$150 million term loan issued in October 2003, we entered into interest rate swaps, which fixed the LIBOR portion of the interest rate on the term loan at 2.40% through October 2006.

In anticipation of a \$150 million Senior Unsecured Note offering, on August 1, 2002, we entered into a treasury rate lock that fixed the benchmark five year treasury rate at 3.472% through August 19, 2002. The rate lock was documented as a cash flow hedge of a forecasted transaction and designated as effective at the inception of the contract. On August 16, 2002, we priced the Senior Unsecured Notes with a scheduled closing date of August 21, 2002 and closed out the associated rate lock. Five year treasury rates declined between the pricing period and the settlement of the hedge purchase; therefore, to settle the rate lock, we paid \$1.5 million. As a result of the August 19, 2002 fire at Santana Row, we were not able to proceed with the note offering at that time. However, we consummated a \$150 million Senior Unsecured Note offering on November 15, 2002, and thus, the hedge loss is being amortized into interest expense over the life of the related Notes.

*Acquisition, Development and Construction Loan Arrangements.* We have made certain mortgage loans that, because of their nature, qualify as loan receivables. At the time the loans were made, we did not intend for the arrangement to be anything other than a financing and did not contemplate a real estate investment. Using guidance set forth in the Third Notice to Practitioners issued by the AICPA in February 1986 entitled *ADC Arrangements* (the Third Notice), we evaluate each investment to determine whether the loan arrangement qualifies under the Third Notice as a loan, joint venture or real estate investment and the appropriate accounting thereon. Such determination affects our balance sheet classification of these investments and the recognition of interest income derived therefrom. Generally, we receive additional interest on these loans, however we never receive in excess of 50% of the residual profit in the project (as defined in the Third Notice) and because the borrower has either a substantial investment in the project or has guaranteed all or a portion of our loan (or a combination thereof) the loans qualify for loan accounting. The amounts under ADC arrangements at December 31, 2003 and 2002 were \$48.9 million and \$35.6 million respectively and interest income recognized thereon was \$3.7 million and \$4.3 million, respectively.

*Comprehensive Income.* Our interest rate swaps were documented as cash flow hedges and designated as effective at inception of the swap contract, therefore, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within shareholders' equity. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, investments purchased in connection with our nonqualified deferred compensation plan are classified as available for sale securities and reported at fair value. Unrealized gains or losses on these investments purchased to match our obligation to the participants is also recorded as a component of other comprehensive income. At December 31, 2003 these investments consisted of mutual funds and are stated at market value.

*Earnings Per Share.* We calculate basic and diluted earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic EPS excludes dilution and is computed by dividing net income available for common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares and then shared in our earnings.

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The following table sets forth the reconciliation between basic and diluted EPS (in thousands, except per share data):

|   | <u>2003</u>       | <u>2002</u>       | <u>2001</u>       |
|---|-------------------|-------------------|-------------------|
| <u>Numerator</u>  |                   |                   |                   |
| Net income available for common shareholders basic      | \$ 75,990         | \$ 35,862         | \$ 59,722         |
| Income attributable to operating partnership units      | 1,317             | 740               | 1,384             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income available for common shareholders diluted    | <u>\$ 77,307</u>  | <u>\$ 36,602</u>  | <u>\$ 61,106</u>  |
| <br><u>Denominator</u>                                  |                   |                   |                   |
| Denominator for basic EPS- weighted average shares      | 47,379            | 41,624            | 39,164            |
| Effect of dilutive securities, stock options and awards | 412               | 417               | 197               |
| Operating partnership units                             | 828               | 841               | 905               |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Weighted average shares diluted                         | <u>48,619</u>     | <u>42,882</u>     | <u>40,266</u>     |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Earnings per common share basic                         | <u>\$1.60</u>     | <u>\$0.86</u>     | <u>\$1.52</u>     |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Earnings per common share diluted                       | <u>\$1.59</u>     | <u>\$0.85</u>     | <u>\$1.52</u>     |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

*Stock-Based Compensation.* In December 2002 the FASB issued SFAS No. 148, Accounting for Stock Based Compensation-Transition and Disclosure as an amendment of FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 amends the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based compensation. Stock options are accounted for using the intrinsic method in accordance with APB No. 25, Accounting for Stock Issued to Employees, as interpreted, whereby if options are priced at fair market value or above at the date of grant and the number of shares is fixed or certain, no compensation expense is recognized. In addition, certain of our stock-based compensation arrangements provide for performance-based vesting which calls for the use of variable plan accounting whereby compensation expense is periodically recorded for the intrinsic value of vested shares. Historically, compensation arising from such arrangements has not been material to operations. The pro forma information is as follows (in thousands except for earnings per share):

|   | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|-------------|
| Net income available to common shareholders | \$75,990    | \$35,862    | \$59,722    |

|  |          |          |          |
|--|----------|----------|----------|
| Stock-based employee compensation cost included in net income as reported          |          |          |          |
| Stock-based employee compensation cost under the fair value method of SFAS No. 123 | \$606    | \$432    | \$680    |
| Pro forma net income available to common shareholders                              | \$75,384 | \$35,430 | \$59,042 |
| Earnings per common share, basic   | \$1.60   | \$0.86   | \$1.52   |
| Earnings per common share, diluted   | \$1.59   | \$0.85   | \$1.52   |
| Pro forma earnings per common share, basic   | \$1.59   | \$0.85   | \$1.51   |
| Pro forma earnings per common share, diluted                                       | \$1.58   | \$0.84   | \$1.50   |

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*Reclassifications.* Certain components of rental income, other property income, rental expense, real estate tax expense and depreciation and amortization on the December 31, 2002 and 2001 Consolidated Statements of Operations have been reclassified to Income from operations of discontinued assets to assure comparability of all periods presented. In addition, certain balance sheet accounts have been reclassified to assure comparability of all periods presented.

*Redemption of preferred stock.* On June 13, 2003, we redeemed our \$100 million 7.95% Series A Cumulative Redeemable Preferred Shares at their face value. The original issuance costs of \$3.4 million were charged to shareholders' equity in 1997, when the shares were issued. On July 31, 2003, the Emerging Issues Task Force provided clarification on the treatment of the difference between the redemption value and the carrying value, adjusting for issuance costs, for GAAP financial reporting. In accordance with this clarification, we are required to make a change in accounting to retroactively reflect this difference as a reduction of net earnings to arrive at net earnings available to common shareholders. As a result of this change in accounting presentation, our Consolidated Statement of Operations for the year ended December 31, 2003 reflects a charge of \$3.4 million in the line Preferred stock redemption - excess of redemption cost over carrying value as a reduction of net income in computing net income available for common shareholders.

*Guarantor's Accounting.* In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others (FIN 45). FIN 45 addresses the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for us on December 31, 2002. The liability recognition requirements are applicable prospectively to all guarantees issued or modified after December 31, 2002. The adoption of this pronouncement has not had a material impact on our financial position or results of operations.

*Variable Interest Entities.* On January 31, 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 clarifies existing accounting for whether interest entities should be consolidated in financial statements based upon the investees ability to finance its activities without additional financial support and whether investors possess characteristics of a controlling financial interest. We have evaluated the applicability of FIN 46 to our investments in certain restaurant joint ventures established in 2001 and 2002 at Santana Row and have determined that these joint ventures do not meet the definition of a Variable Interest Entity and therefore consolidation of these ventures is not required. Accordingly, these investments will continue to be accounted for using the equity method.

As of December 31, 2003, we have invested approximately \$7.8 million in these ventures, principally to fund buildout costs of each restaurant. Of this amount, \$6.5 million has been capitalized as an investment in these ventures and \$1.3 million was expensed in 2002 to reflect our estimate of the permanent impairment of our investment in two of these ventures due principally to declining economic conditions. We are currently committed to invest a total of \$8.0 million in these ventures and as such, our maximum exposure to further losses as a result of involvement in these ventures is \$6.7 million at December 31, 2003.



*Statement of Financial Accounting Standards No. 149.* In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities which clarifies the accounting and reporting for derivative instruments. The statement is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 has not had a material effect on the Trust's financial statements.

*Statement of Financial Accounting Standards No. 150.* In May 2003, the FASB issued SFAS No 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 addresses the classification and measurement of freestanding financial instruments, including mandatorily redeemable preferred and common stock, and requires an issuer to classify certain instruments as liabilities. The adoption of SFAS No. 150 has not had a material effect on the Trust's financial Statements.

## **NOTE 2: REAL ESTATE AND ENCUMBRANCES**

A summary of our properties at December 31, 2003 and 2002 is as follows (in thousands):

| <u>2003</u>                            | Cost              | Accumulated<br>depreciation and<br>amortization | Encumbrances    |
|--|-------------------|---|-----------------|
| Retail and mixed-use properties        | \$2,197,276       | \$434,063                                       | \$254,871       |
| Retail properties under capital leases | 246,143           | 73,767  | 159,486         |
| Residential                            | 26,730            | 6,347   |                 |
|  | <hr/> \$2,470,149 | <hr/> \$514,177                                 | <hr/> \$414,357 |
| <br><u>2002</u>                        |                   |   |                 |
| Retail and mixed-use properties        | \$2,123,890       | \$378,148                                       | \$288,817       |
| Retail properties under capital leases | 176,253           | 66,538  | 104,395         |
| Residential                            | 6,683             | 6,011   |                 |
|  | <hr/> \$2,306,826 | <hr/> \$450,697                                 | <hr/> \$393,212 |

Retail and mixed-use properties includes the residential portion of our Santana Row development partner. The residential property investments comprised our investments in Rollingwood Apartments and Crest Apartments at Congressional Plaza.

During 2003 we expended cash of \$174.5 million to improve, redevelop and develop our existing real estate. Of the \$174.5 million spent in 2003 on our existing real estate portfolio, approximately \$123.9 million was invested in our Santana Row development project, located in San Jose, California. The remaining \$50.6 million of capital expenditures relates to improvements to common areas, tenant work and various redevelopments, including the cost of

Congressional Apartments in Rockville, Maryland, the redevelopment of retail buildings in San Antonio, Texas and the completion of tenant work at the Woodmont East development in Bethesda, Maryland.

During 2003, we expended cash of \$50.6 million acquiring four shopping centers and \$55.4 million of assets were acquired through capital leases.

On March 21, 2003, a partnership in which one of our wholly owned subsidiaries is the general partner, purchased the 214,000 square foot South Valley Shopping Center in Alexandria, Virginia for a purchase price of approximately \$13.7 million in cash. All of the purchase price has been allocated to real estate assets except for approximately \$125,000 which has been allocated to prepaid and other assets associated with the net fair value assigned to above-market leases assumed and \$332,000 which has been allocated to other liabilities associated with the net fair value assigned to below-market leases assumed.

On March 31, 2003, the same partnership acquired the leasehold interest, which extends through December 31, 2077, in the 257,000 square foot Mount Vernon Plaza in Alexandria, Virginia, for aggregate consideration of approximately \$17.5 million in the form of approximately \$700,000 of cash, 120,000 partnership units valued at \$3.5 million and the assumption of a \$13.3 million mortgage. All of the purchase price has been allocated to real estate assets except for approximately \$756,000 which has been allocated to prepaid and other assets associated with the net fair value assigned to above-market leases assumed and \$1.75 million which has been allocated to other liabilities associated with the net fair value assigned to the assumed leases at the property assigned.

On October 14, 2003, the Trust acquired the leasehold interest, which extends through September 30, 2028, in the 321,000 square foot Mercer Mall in Lawrenceville, New Jersey for \$10.5 million paid out of proceeds from dispositions and from borrowings under our credit facility. The master lease includes a fixed purchase price option for \$55 million in 2023. If we fail to exercise our purchase option, the owner of Mercer Mall has a put option which would require us to purchase Mercer Mall for \$60 million in 2025. All of the purchase price has been allocated to real estate assets except for approximately \$736,000 allocated to prepaid and other assets associated with the net fair value assigned to above-market leases assumed, and \$2.4 million allocated to other liabilities associated with the net fair value assigned to below-market leases assumed.

On October 31, 2003, FR Plaza del Mercado, LLC, a wholly owned subsidiary of the Trust, purchased the 96,000 square foot Plaza del Mercado shopping center located in Silver Spring, Maryland for a purchase price of approximately \$20 million in cash. All of the purchase price has been allocated to real estate assets except for approximately \$929,000 fair value assigned to above-market leases assumed and \$962,000 allocated to other liabilities associated with the net fair value assigned to below-market leases assumed.

On December 4, 2003, FR Mercer Mall, LLC, a wholly owned subsidiary of the Trust, purchased a 40,000 square foot out-parcel of Mercer Mall in Lawrenceville, New Jersey for a purchase price of approximately \$6.5 million including the assumption. All of the purchase price has been allocated to real estate assets except for approximately \$15,000 which has been allocated to prepaid and other assets associated with the net fair value assigned to above-market lease assumed.

On June 16, 2003, we sold the street retail property located at 4929 Bethesda Avenue in Bethesda, Maryland for approximately \$1.5 million resulting in a gain of \$551,000.

During the first quarter of 2003 an action was filed by a local governmental authority to condemn a shopping center in Rockville, Maryland, owned by one of our partnerships to facilitate the authority's redevelopment of its town center. The shopping center has a cost basis of \$10.5 million and contributes less than 1% to our rental income. We have agreed with the governmental authority on a condemnation value of \$14.3 million, subject to certain terms, and anticipate closing of this transaction in mid-2004. Because the anticipated condemnation proceeds are in excess of our carrying value, we have not recorded any impairment in value of the property.

On July 31, 2003 we sold the street retail property located at 4925 Bethesda Avenue in Bethesda, Maryland for approximately \$1.1 million resulting in a gain of \$157,000.

On September 12, 2003 we sold the undeveloped land located in Washington County, Oregon for approximately \$9.7 million resulting in a gain of \$1.9 million.

On September 15, 2003 we sold the street retail property located in Brookline, Massachusetts for approximately \$8.2 million resulting in a gain of \$4.3 million.



On September 22, 2003 we sold a street retail property located at 2106 Central Avenue in North Evanston, Illinois for approximately \$1.8 million resulting in a gain of \$780,000.

On October 31, 2003 we sold a street retail property located at 234 Greenwich Avenue in Greenwich, Connecticut for approximately \$8.0 million, resulting in a gain of \$4.5 million.

On December 18, 2003 we sold four street retail properties located in West Hartford, Connecticut for approximately \$15.7 million, resulting in a gain of approximately \$7.9 million.

These property sales constitute discontinued operations and as such, the accompanying financial statements have been restated to reclassify the operations of these properties as discontinued operations. A summary of the financial information for the discontinued operations is as follows:

|   | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|-------------|
| Revenue from discontinued operations              | \$2,792     | \$5,328     | \$10,917    |
| Income from operations of discontinued operations | \$1,422     | \$2,876     | \$ 6,246    |

On February 1, 2002, we redeemed the minority partner's interest in Santana Row in exchange for a \$2.6 million investment in a partnership. We made a \$5.9 million loan to the partnership in January 2001 that was due February 28, 2003 but was not repaid on the due date. The loan currently bears interest at 7.88% and is secured by an office building in San Francisco, California. We are currently negotiating with the borrower to extend the loan through March 31, 2005. When the loan modification is complete, the interest rate on the note will decrease to 6%, retroactive to July 1, 2003. Interest on the loan is current through December 31, 2003 and based in part on the value of the underlying collateral, we believe the loan is collectible and as such, no reserve has been established at this time.

Our 111 retail properties at December 31, 2003 are located in 14 states and the District of Columbia. There are approximately 2,200 tenants providing a wide range of retail products and services. These tenants range from sole proprietorships to national retailers; no one tenant or corporate group of tenants accounts for more than 2.3% of annualized base rent.

Mortgage notes receivable of \$48.9 million are due over various terms from February 2003 to May 2021 and have a weighted average interest rate of 9.07%. Under the terms of certain of these mortgages, we will receive additional interest based upon the gross income of the secured properties and, upon sale of the properties, we will share in the appreciation of the properties.

Mortgages payable and capital lease obligations are due in installments over various terms extending to 2028 and 2060, respectively, with interest rates ranging from 3.14% to 11.25%. Certain of the capital lease obligations require additional interest payments based upon property performance.

On November 19, 2002 we used the proceeds from our \$150 million public note offering, as well as \$20 million of available insurance proceeds relating to the Santana Row fire and approximately \$7.1 million in borrowings under our credit facility, to pay in full and retire the Santana Row construction loan.

At December 31, 2002 there was \$24.4 million borrowed under the construction loan for our Woodmont East development in Bethesda, Maryland. The loan had a floating interest rate of LIBOR plus 120 basis points. On February 11, 2003 the \$24.4 million Woodmont East



construction loan and the \$17.0 million Friendship Center mortgage were paid off through borrowings under our revolving credit facility.

Scheduled principal payments on mortgage and construction loan indebtedness as of December 31, 2003 are as follows (in thousands):

|                          |           |
|--------------------------|-----------|
| Year ending December 31, |           |
| 2004                     | \$2,803   |
| 2005                     | 3,229     |
| 2006                     | 3,581     |
| 2007                     | 3,858     |
| 2008                     | 13,633    |
| Thereafter               | 227,767   |
|                          | <hr/>     |
|                          | \$254,871 |
|                          | <hr/>     |

Future minimum lease payments and their present value for property under capital leases as of December 31, 2003, are as follows (in thousands):

|                                   |           |
|-----------------------------------|-----------|
| Year ending December 31,          |           |
| 2004                              | \$14,389  |
| 2005                              | 15,637    |
| 2006                              | 15,799    |
| 2007                              | 15,911    |
| 2008                              | 16,075    |
| Thereafter                        | 629,066   |
|                                   | <hr/>     |
|                                   | 706,877   |
| Less amount representing interest | (547,391) |
|                                   | <hr/>     |
| Present value                     | \$159,486 |
|                                   | <hr/>     |

### Leasing Arrangements

Our leases with commercial property and residential tenants are classified as operating leases. Leases on apartments are generally for a period of one year or less. Commercial property leases generally range from three to ten years (certain leases with anchor tenants may be longer), and in addition to minimum rents, usually provide for contingent rentals based on the tenant's gross sales and sharing of certain operating costs.





Minimum future commercial property rentals on noncancelable operating leases, before any reserve for uncollectible amounts, on operating properties as of December 31, 2003 are as follows (in thousands):

|                          |             |
|--------------------------|-------------|
| Year ending December 31, |             |
| 2004                     | \$263,004   |
| 2005                     | 246,652     |
| 2006                     | 223,276     |
| 2007                     | 197,582     |
| 2008                     | 168,818     |
| Thereafter               | 1,225,755   |
|                          | <hr/>       |
|                          | \$2,325,087 |
|                          | <hr/>       |

Income Statement Components

The components of rental income are as follows (in thousands):

|                                 | Year ended December 31, |           |           |
|---------------------------------|-------------------------|-----------|-----------|
|                                 | 2003                    | 2002      | 2001      |
|                                 | <hr/>                   | <hr/>     | <hr/>     |
| Retail and mixed-use properties |                         |           |           |
| Minimum rents                   | \$262,525               | \$233,801 | \$214,492 |
| Cost reimbursements             | 56,837                  | 52,252    | 45,978    |
| Percentage rent                 | 6,184                   | 5,635     | 5,833     |
| Residential rents               | 9,151                   | 3,328     | 2,985     |
|                                 | <hr/>                   | <hr/>     | <hr/>     |
|                                 | \$334,697               | \$295,016 | \$269,288 |
|                                 | <hr/>                   | <hr/>     | <hr/>     |

The income statement adjustment recorded to recognize rent on a straight-line basis was an increase to minimum rents of \$1.9 million, \$1.7 million and \$0.7 million for the year ended December 31, 2003, 2002 and 2001, respectively.

The components of rental expense are as follows (in thousands):

|                           | Year ended December 31, |          |          |
|---------------------------|-------------------------|----------|----------|
|                           | 2003                    | 2002     | 2001     |
|                           | <hr/>                   | <hr/>    | <hr/>    |
| Repairs and maintenance   | \$24,121                | \$18,632 | \$17,017 |
| Management fees and costs | 10,746                  | 12,039   | 11,484   |

|                    |                   |                   |                   |
|--------------------|-------------------|-------------------|-------------------|
| Utilities          | 12,930            | 8,939             | 7,995             |
| Payroll properties | 7,915             | 5,878             | 4,499             |
| Ground rent        | 5,052             | 4,904             | 3,317             |
| Insurance          | 6,728             | 4,198             | 3,082             |
| Other operating    | 15,955            | 18,400            | 14,225            |
|                    | <u>          </u> | <u>          </u> | <u>          </u> |
|                    | \$83,447          | \$72,990          | \$61,619          |
|                    | <u>          </u> | <u>          </u> | <u>          </u> |

**NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following disclosure of estimated fair value was determined by us, using available market information and appropriate valuation methods. Considerable judgment is necessary to develop estimates of fair value. The estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

We estimate the fair value of our financial instruments using the following methods and assumptions: (1) quoted market prices, when available, are used to estimate the fair value of investments in marketable debt and equity securities; (2) quoted market prices were used to estimate the fair value of our marketable convertible subordinated debentures; (3) discounted

cash flow analyses are used to estimate the fair value of mortgage notes receivable and payable, using our estimate of current interest rates for similar notes in 2003, the carrying amount on the balance sheet was used to approximate fair value for mortgage notes receivable since these notes are for specific deals, some contain participation provisions based on the property performance and also are convertible into ownership of the properties; (4) carrying amounts on the balance sheet approximate fair value for cash, accounts payable, accrued expenses and short term borrowings. Notes receivable from officers are excluded from fair value estimation since they have been issued in connection with employee stock ownership programs.

| (in thousands)                                     | December 31, 2003 |            | December 31, 2002 |            |
|--|-------------------|------------|-------------------|------------|
|  | Carrying Value    | Fair Value | Carrying Value    | Fair Value |
| Cash & equivalents                                 | \$34,968          | \$34,968   | \$23,123          | \$23,123   |
| Investments  | \$8,919           | \$8,919    | \$5,929           | \$5,929    |
| Mortgage notes receivable                          | \$41,500          | \$41,500   | \$35,577          | \$35,577   |
| Mortgages and construction loans and notes payable | \$616,194         | \$640,957  | \$487,128         | \$543,535  |
| Convertible debentures                             |                   |            | \$75,000          | \$75,103   |
| Senior notes                                       | \$535,000         | \$592,300  | \$535,000         | \$581,293  |

**NOTE 4. NOTES PAYABLE**

Our notes payable consist of the following (in thousands):

|                             | 2003             | 2002             |
|-----------------------------|------------------|------------------|
| Revolving credit facilities | \$99,750         | \$71,000         |
| Term notes with banks       | 250,000          | 125,000          |
| Other                       | 11,573           | 11,711           |
|                             | <u>\$361,323</u> | <u>\$207,711</u> |

On October 8, 2003, we closed on a new \$550 million unsecured credit facility which replaced our \$300 million revolving credit facility and \$125 million term loan, both of which were due to mature on December 19, 2003. The new credit facility consists of a \$150 million five-year term loan, a \$100 million three-year term loan, and a \$300 million three-year revolving credit facility, with a one-year extension option. The term loans currently bear interest at LIBOR plus 95 basis points, while the revolving facility currently bears interest at LIBOR plus 75 basis points. The spread over LIBOR is subject to adjustment based on our credit rating. Covenants under the new credit facility are substantially the same type as were required under the previous facility. Concurrent with the replacement of our \$125 million term loan with the new credit facility, we unwound the related interest rate swaps which were due to expire on December 19, 2003 at of cost of approximately \$1.1 million.

The maximum amount drawn under these revolving credit facilities during 2003, 2002 and 2001 was \$215.0 million, \$225.0 million and \$308.5 million, respectively. In 2003, 2002 and 2001, the weighted average interest rate on borrowings was 3.4%, 5.0% and 5.6%, respectively,

-F18-

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and the average amount outstanding was \$96.9 million, \$189.1 million and \$269.7 million, respectively.

In January 2004, we issued \$75 million of fixed rate notes which mature in February 2011 and bear interest at 4.50%. The proceeds of this note offering were used to pay down our revolving credit facility.

**NOTE 5. 5 1/4% CONVERTIBLE SUBORDINATED DEBENTURES**

In October 1993, we issued \$75.0 million of 5 1/4% convertible subordinated debentures, realizing cash proceeds of approximately \$73.0 million. The debentures which were convertible into shares of beneficial interest at \$36 per share were not registered under the Securities Act of 1933 and were not publicly distributed within the United States. We redeemed and paid in full our \$75.0 million debentures originally due to mature on October 28, 2003, on June 23, 2003.

**NOTE 6. SENIOR NOTES AND DEBENTURES**

Unsecured senior notes and debentures at December 31, 2003 and 2002 consist of the following (in thousands):

|   | 2003                        | 2002                        |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| 6.74% Medium-Term Notes due March 10, 2004  | \$39,500                    | \$39,500                    |
| 6.625% Notes due December 1, 2005   | 40,000                      | 40,000                      |
| 6.99% Medium-Term Notes due March 10, 2006  | 40,500                      | 40,500                      |
| 6.82% Medium-Term Notes due August 1, 2027,<br>redeemable at par by holder August 1, 2007 | 40,000                      | 40,000                      |
| 6.125% Notes due November 15, 2007  | 150,000                     | 150,000                     |
| 7.48% Debentures due August 15, 2026, redeemable<br>at par by holder August 15, 2008      | 50,000                      | 50,000                      |
| 8.75% Notes due December 1, 2009  | 175,000                     | 175,000                     |
|   | <u>                    </u> | <u>                    </u> |
|   | <u>\$535,000</u>            | <u>\$535,000</u>            |

On November 19, 2002, we completed the sale of \$150 million of senior notes in an underwritten public offering under our shelf registration statement declared effective by the SEC on September 30, 1998. Net proceeds, after deducting the discounts and commissions to the underwriters and other expenses of this offering, totaled approximately \$148.7 million. The net proceeds, together with \$20 million in available insurance proceeds relating to the Santana Row fire, and approximately \$7.1 million in borrowings under our credit facility, were used to pay in full and retire the Santana Row construction loan, including all interest owed on the loan.

The loan agreements contain various covenants, including limitations on the amount of debt and minimum debt service coverage ratios. We are in compliance with all covenants. No principal is due on these notes prior to maturity.

In October 2002, we filed a \$500 million shelf registration statement, declared effective on November 6, 2002, with the Securities and Exchange Commission which allows the issuance of debt securities, preferred shares and common shares. As of December 31, 2003, \$400 million was available under the shelf registration. Subsequent to

December 31, 2003, the capacity was reduced by \$75 million as a result of a note offering in January 2004.

-F19-

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**NOTE 7. DIVIDENDS**

On December 2, 2003 the Trustees declared a quarterly cash dividend of \$0.49 per common share, payable January 15, 2004 to common shareholders of record January 2, 2004. The total dividend declared per common share for 2003 was \$1.95.

Also on December 2, 2003 the Trustees declared a quarterly cash dividend of \$0.53125 per share on its Series B Cumulative Redeemable Preferred Shares, payable on January 30, 2004 to shareholders of record on January 15, 2004, respectively.

For the year ended December 31, 2003, \$0.29 of dividends paid per common share represent a capital gain. \$0.36 of dividends paid per Series B preferred share represent a capital gain. \$0.21 dividends paid per Series A preferred share represent a capital gain. For the year ended December 31, 2002, \$0.37 of dividends paid per common share and per Series B preferred share represent a capital gain. \$0.38 of dividends paid per Series A preferred share represent a capital gain.

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

We are involved in various lawsuits and environmental matters arising in the normal course of business. Management believes that such matters will not have a material effect on our financial condition or results of operations.

As detailed at Note 1, Summary of Significant Accounting Policies Investment in Restaurant Joint Ventures at Santana Row, we are currently committed to invest approximately \$8.0 million in these joint ventures. As of December 31, 2003 we have invested approximately \$7.8 million.

Under the terms of the Congressional Plaza partnership agreement, from and after January 1, 1986, an unaffiliated third party, has the right to require us and the two other minority partners to purchase from half to all of its 37.5% interest in Congressional Plaza at the interest's then-current fair market value. Based on management's current estimate of fair market value, our estimated liability upon exercise of the put option is approximately \$28.0 million. In conjunction with the construction of apartments at the property completed in 2003, we have agreed to acquire 7.5% of the third party's interest in Congressional Plaza, thereby lowering its ownership percentage to 30%, in exchange for our funding approximately \$7 million of its share of the redevelopment cost. The development funding has taken place in 2003 and the acquisition of the third party's 7.5% interest is anticipated to be completed in 2004. After the completion of this transaction, our estimated liability upon the exercise of the put option will be approximately \$21 million.

Under the terms of various other partnerships which own shopping center properties with a cost of approximately \$88.5 million, the partners may exchange their 852,222 operating units for cash or the same number of our common shares, at our option. On February 14, 2003 we paid \$333,000 to redeem 12,000 operating units. On March 31, 2003 in connection with the acquisition of Mount Vernon Plaza we issued approximately 120,000 operating units. On April 3, 2003 we issued 64,952 of our common shares valued at \$1.9 million in exchange for 64,952

operating units. On January 5, 2004 we paid \$199,000 to redeem an additional 5,100 operating units.

Under the terms of four other partnerships which own street retail properties in southern California with a cost of approximately \$61 million, if certain leasing and revenue levels are obtained for the properties owned by the partnerships, the other partners may require us to purchase their partnership interests at a formula price based upon net operating income. The purchase price may be paid in cash or for two of the partnerships, a limited number of our common shares at the election of the other partners. In these partnerships, if the other partners do not redeem their interest, we may choose to purchase the limited partnership interests upon the same terms.

Street Retail San Antonio LP, a wholly-owned subsidiary of the Trust, entered into a Development Agreement (the Agreement ) on March 13, 2000 with the City of San Antonio, Texas (the City ) related to the redevelopment of land and buildings that we own along Houston Street in the City. Houston Street and the surrounding area have been designated by the City as a Reinvestment Zone (the Zone ). The City has agreed to facilitate redevelopment of the Zone by undertaking and financing certain public improvements based on our agreement to redevelop our properties in the Zone. Under the terms of the Agreement, the City issued debt to fund specific public improvements within the Zone. The initial and primary source of funding to the City for repayment of the debt and debt service is the incremental tax revenue that accretes to the City as the taxable value of the redeveloped properties within the Zone increase. We are required to issue an annual letter of credit, commencing on October 1, 2002 through September 30, 2014, that covers our designated portion of the debt service should the incremental tax revenue generated in the Zone not cover the debt service. We posted a letter of credit with the City on September 25, 2002 for \$795,000. Our obligation under this Agreement is estimated to range from \$1.6 million to \$3.0 million of which approximately \$360,000 has been funded in 2003. We were not required to provide any funding in 2002 or for the semi-annual payment due March 15, 2003. We have accrued for additional payments of \$1.2 million as of September 30, 2003 as part of the project costs due to the estimated shortfall of incremental tax revenues to the City. We could be required to provide funding beyond the \$1.2 million currently accrued under the Agreement prior to its expiration on September 30, 2014. We do not anticipate that such obligation would exceed \$600,000 in any year nor exceed \$3 million in total. If the Zone creates sufficient tax increment funding to repay the City's debt prior to the expiration of the Agreement, we will be eligible to receive reimbursement of amounts paid for debt service shortfalls together with interest thereon.

As of December 31, 2003 in connection with renovation and development projects, the Trust has contractual obligations of approximately \$79 million.



We are obligated under ground lease agreements on several shopping centers requiring minimum annual payments as follows (in thousands):

|            |           |
|------------|-----------|
| 2004       | \$4,320   |
| 2005       | 4,329     |
| 2006       | 4,376     |
| 2007       | 4,423     |
| 2008       | 4,409     |
| Thereafter | 269,474   |
|            | <hr/>     |
|            | \$291,331 |
|            | <hr/>     |

**NOTE 9. SHAREHOLDERS EQUITY**

In May 1999, we reorganized as a Maryland real estate investment trust by amending and restating our declaration of trust and bylaws. The Amended Declaration of Trust changed the number of authorized shares of common and preferred shares from unlimited to 100,000,000 and 15,000,000, respectively. In addition, all common shares of beneficial interest, no par value, which were issued and outstanding were changed to common shares of beneficial interest, \$0.01 par value per share and all Series A Cumulative Redeemable Preferred Shares of beneficial interest, no par value, which were issued and outstanding were changed to Series A Cumulative Redeemable Preferred Shares of beneficial interest, \$0.01 par value per share.

On October 6, 1997 we issued four million 7.95% Series A Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$96.6 million after costs of \$3.4 million. The Series A Preferred Shares were not redeemable prior to October 6, 2002. On June 13, 2003, we redeemed these Preferred Shares using the proceeds from the May 14, 2003 common stock offering and available funds. Dividends on the Preferred Shares were payable quarterly in arrears on the last day of January, April, July and October.

On November 19, 2001 we issued 5.4 million 8.5% Series B Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$130.2 million after costs of \$4.8 million. The Series B Preferred Shares are not redeemable prior to November 27, 2006. On or after that date, the Preferred Shares may be redeemed, in whole or in part, at our option, at a redemption price of \$25 per share plus all accrued and unpaid dividends. Dividends on the Preferred Shares are payable quarterly in arrears on the last day of January, April, July and October.

On June 12, 2002, we issued 2.2 million common shares at \$25.9825 per share (\$27.35 gross, before a 5.00% underwriters discount and selling concession) netting \$56.6 million in cash proceeds after all expenses of the offering.

On May 14, 2003, we issued 3.2 million common shares at \$30.457 per share (\$31.48 gross, before an aggregate 3.25% underwriters discount and selling concession) netting \$98.4 million in cash proceeds, after all expenses of the offering.

We have a Dividend Reinvestment Plan, whereby shareholders may use their dividends and optional cash payments to purchase shares. In 2003, 2002 and 2001, 109,835 shares, 134,247 shares and 159,234 shares, respectively, were issued under the Plan.



In December 1999, the Trustees authorized a share repurchase program for calendar year 2000 of up to an aggregate of 4 million of our common shares. During 2000, a total of 1,325,900 shares were repurchased, at a cost of \$25.2 million. We did not repurchase shares in 2003, 2002 or 2001.

In 2003, 2002 and 2001, 138,568 common shares, 98,092 common shares and 96,657 common shares, respectively, were awarded to key employees, including our former Chief Executive Officer, under various incentive compensation programs designed to directly link a significant portion of their current and long term compensation to the prosperity of the Trust and its shareholders. The shares vest over terms from 3 to 5 years. Vesting of common shares awarded to the former Chief Executive Officer was accelerated pursuant to his contractual arrangement.

On January 26, 1998, we granted 75,000 Performance Shares to an employee for which vesting was tied to leasing performance as it relates to Santana Row and other projects. Performance was to be measured at three separate dates extending to 2003. By December 31, 2002, the first two performance measures had been met. In connection with the restructuring (See Note 13) the 2003 performance measure was accelerated and granted as of December 31, 2002. We applied variable accounting to these awards by valuing the shares at each date the performance measures were either met or accelerated and recorded a charge of \$712,000 as part of the restructuring charge.

In February 2002 and February 2003, we granted Performance Awards of 30,000 and 120,000, respectively, to certain officers and employees of the Trust. Pursuant to the terms of these awards, 20% of the Performance Shares will vest for any calendar year in which we exceed certain performance targets for the same period. Any performance awards which remain

unvested after 2011 and 2012, respectively, will be forfeited. We employ variable accounting for these Performance Awards. Compensation expense resulting from this accounting was not material in 2002 or 2003.

Tax loans with a balance of \$300,000 in 2003, \$1.8 million in 2002 and \$3.1 million in 2001 have been made in connection with restricted share grants to certain of our officers and in connection with the Share Purchase Plans. The loans, which bear interest ranging from 1.95% to 6.54%, are due over periods ranging from 8 to 13 years from the date of the loan. During 2003 tax loans in the amount of \$1.5 million were repaid.

On April 13, 1999, the Shareholder Rights Plan adopted in 1989 expired. On March 11, 1999 we entered into an Amended and Restated Rights Agreement with American Stock Transfer and Trust Company, pursuant to which (i) the expiration date of our shareholder rights plan was extended for an additional ten years to April 24, 2009, (ii) the beneficial ownership percentage at which a person becomes an Acquiring Person under the plan was reduced from 20% to 15%, and (iii) certain other amendments were made. On October 29, 2003, we further amended the Amended and Restated Rights Agreement to increase the beneficial ownership percentage at which a person becomes an Acquiring Person under the plan from 15% to 20% and to require that the Trust's Board of Trustees review the plan on a periodic basis.

#### **NOTE 10. STOCK OPTION PLAN**

The 1993 Long Term Incentive Plan ( Plan ) authorizes the grant of options and other stock based awards for up to 5.5 million shares. Options granted under the Plan have ten year terms and vest in one to five years. The Plan expired in May 2003.

In May 2001 our shareholders approved the 2001 Long Term Incentive Plan ( 2001 Plan ) which authorized an additional 1,750,000 shares for future option and other stock based awards.

The option price to acquire shares under the 2001 Plan and previous plans is required to be at least the fair market value at the date of grant. As a result of the exercise of options, we had outstanding from our officers and employees notes for \$3.3 million, \$2.5 million and \$2.5 million at December 31, 2003, 2002 and 2001, respectively. Notes issued after 2001 bear interest at LIBOR plus a market-rate spread with the rate adjusted annually. Notes issued prior to 2002 bear interest at the lesser of (i) our borrowing rate on the date of exercise or (ii) the dividend rate on the date of exercise divided by the purchase price of such shares. The notes issued under the previous plans bear interest at the lesser of (i) our borrowing rate or (ii) the current indicated annual dividend rate on the shares acquired pursuant to the option, divided by the purchase price of such shares. The notes are collateralized by the shares with recourse to the borrower and have five-year terms. Option awards made in 2001 and later do not provide for employees to be able to exercise their options with a loan from the Trust.

SFAS No. 123, Accounting for Stock-Based Compensation requires pro forma information regarding net income and earnings per share as if we accounted for our stock options under the fair value method of that Statement. Where at the date of grant, either the number of shares or exercise price are not known, we record compensation expense in accordance with variable accounting. The fair value for options issued in 2003, 2002 and 2001 has been estimated as \$582,000, \$536,000 and \$350,000, respectively, as of the date of grant, using a

Black Scholes model with the following weighted-average assumptions for 2003, 2002 and 2001, respectively: risk-free interest rates of 3.2%, 4.5% and 4.9%; volatility factors of the expected market price of our shares of 20%, 16% and 20%; and a weighted average expected life of the option of 6.0 years, 6.9 years and 6.9 years. Our assumed weighted average dividend yield used to estimate the fair value of the options issued was 8.85% in 2003.

Because option valuation models require the input of highly subjective assumptions, such as the expected stock price volatility, and because changes in these subjective input assumptions can materially affect the fair value estimate, the existing model may not necessarily provide a reliable single measure of the fair value of its stock options.

A summary of our stock option activity for the years ended December 31, is as follows:

|                                  | Shares Under<br>Option      | Weighted<br>Average<br>Exercise Price |
|----------------------------------|-----------------------------|---------------------------------------|
|                                  | <u>                    </u> | <u>                    </u>           |
| Outstanding at January 1, 2001   | 3,718,281                   | \$23.46                               |
| Options granted 2001             | 417,500                     | 19.80                                 |
| Options exercised 2001           | (27,566)                    | 20.81                                 |
| Options forfeited 2001           | (351,834)                   | 22.88                                 |
|                                  | <u>                    </u> |                                       |
| Outstanding at December 31, 2001 | 3,756,381                   | 23.12                                 |
| Options granted 2002             | 435,500                     | 25.26                                 |
| Options exercised 2002           | (951,971)                   | 21.92                                 |
| Options forfeited 2002           | (19,168)                    | 23.95                                 |
|                                  | <u>                    </u> |                                       |
| Outstanding at December 31, 2002 | 3,220,742                   | 23.76                                 |
| Options granted 2003             | 419,500                     | 28.30                                 |
| Options exercised 2003           | (2,124,869)                 | 23.89                                 |
| Options forfeited 2003           | (53,333)                    | 25.00                                 |
|                                  | <u>                    </u> |                                       |
| Outstanding at December 31, 2003 | <u>1,462,040</u>            | 24.86                                 |

At December 31, 2003, 2002 and 2001, options for 900,000, 2.5 million shares and 2.7 million shares, respectively, were exercisable. The average remaining contractual life of options outstanding at December 31, 2003, 2002 and 2001 was 6.3 years, 5.4 years and 5.8 years, respectively. The weighted average grant date fair value per option for options granted in 2003, 2002 and 2001 was \$1.32, \$1.23 and \$1.04, respectively. The exercise price of options outstanding at December 31, 2003 ranged from \$18.00 per share to \$35.91 per share.

**NOTE 11. SAVINGS AND RETIREMENT PLANS**

We have a savings and retirement plan in accordance with the provisions of Section 401(k) of the Internal Revenue Code. For employees who choose to contribute, their contributions range, at their discretion, from 1% to 20% of compensation up to a maximum of \$11,000. Under the plan, we contribute out of our current net income, 50% of each employee's first 5% of contributions. In addition, we may make discretionary contributions within the limits of deductibility set forth by the Code. Our employees are immediately eligible to become plan participants. Employees are not eligible to receive matching contributions until their first

-F25-

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anniversary of employment. Our expense for the years ended December 31, 2003, 2002 and 2001 was \$255,000, \$271,000 and \$243,000, respectively.

A nonqualified deferred compensation plan for our officers and certain other employees was established in 1994. The plan allows the participants to defer future income until the earlier of age 65 or termination of employment. As of December 31, 2003, we are liable to participants for approximately \$3.2 million under this plan. Although this is an unfunded plan, we have purchased certain investments with which to match this obligation. Our obligation under this plan and the related investments are both included in the accompanying financial statements.

**NOTE 12. INTEREST EXPENSE**

We incurred interest totaling \$88.7 million, \$88.6 million and \$87.1 million in 2003, 2002 and 2001, respectively, of which \$13.5 million, \$23.5 million, and \$17.8 million respectively, was capitalized. Interest paid was \$85.7 million in 2003, \$86.2 million in 2002 and \$84.1 million in 2001.

**NOTE 13. CHANGE IN BUSINESS PLAN**

On February 28, 2002, we adopted a new business plan which returned our primary focus to our traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores, or high volume, value oriented retailers that provide consumer necessities. We will complete Bethesda Row and Santana Row (Pentagon Row was completed in 2002) but do not plan to develop any new large-scale, mixed-use, ground-up development projects. Rather, we will seek to acquire income producing centers in and around our existing markets and will identify and execute redevelopment opportunities in our existing portfolio. Concurrent with the adoption of the business plan, we adopted a management succession plan and restructured our management team.

In connection with this change in our business plan, we recorded a charge of \$18.2 million. This charge included a reserve for a restructuring charge of \$8.5 million made up of \$6.9 million of severance and other compensation costs for several of our senior officers related to the management restructuring, as well as the write-off of \$1.6 million of our development costs. All charges against the reserve, totaling \$8.5 million, were expended during 2002. An additional component of the restructuring charge is an impairment loss of \$9.7 million representing the estimated loss on the abandonment of development projects held for sale, primarily the Tanasbourne development project located in Washington County, Oregon, thereby adjusting the value of these assets to their estimated fair value. The Tanasbourne land was sold in 2003 for approximately \$9.7 million resulting in a gain of \$1.9 million.

On December 20, 2002, we announced the resignation of Steven J. Guttman as Trustee, Chief Executive Officer and Chairman of the Board of Trustees effective January 1, 2003. Donald C. Wood, our then President and Chief Operating Officer, was named Chief Executive Officer and a member of the Board of Trustees. Mark Ordan, a member of the Board of Trustees since 1996, was named non-executive chairman of the board. As a result of this transition, we recorded a charge of \$13.8 million in the fourth quarter of 2002 for payments and benefits to Mr. Guttman pursuant to his contractual arrangements with the Trust and for other transition related costs. Of this amount, \$7.9 million had not been paid as of December 31, 2002 and \$0.8 million remains to be expended as of December 31, 2003.

**NOTE 14. SUBSEQUENT EVENTS (UNAUDITED)**

Pursuant to the 2003 Incentive Bonus Plan, vice presidents and certain key employees receive part of their 2003 bonus in our common shares which vest over three years. Consequently, on February 12, 2004, 9,025 shares were awarded under this plan. In addition, on February 12, 2004, 75,522 restricted shares which will vest over three years were awarded to the Trust's officers. All of the restricted share awards were made under the 2001 Plan.

-F27-

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**NOTE 15. SEGMENT INFORMATION**

We operate our portfolio of properties in three geographic operating regions: Northeast, Mid-Atlantic and West, which constitutes our segments under Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information .

A summary of our operations by geographic region is presented below (in thousands):

| <b><u>2003</u></b>  | <b>Northeast</b> | <b>Mid<br/>Atlantic</b> | <b>West</b>     | <b>Other</b>      | <b>Total</b>    |
|---|------------------|-------------------------|-----------------|-------------------|-----------------|
| Rental income   | \$121,325        | \$151,206               | \$62,166        | \$0               | \$334,697       |
| Other property income   | 5,063            | 7,525                   | 5,212           |                   | 17,800          |
| Interest and other income   | 3,409            | 309                     | 1,661           |                   | 5,379           |
| Rental expense  | (24,519)         | (33,168)                | (25,760)        |                   | (83,447)        |
| Real estate tax   | (16,881)         | (13,119)                | (4,596)         |                   | (34,596)        |
| <b>Property operating income</b>  | <b>88,397</b>    | <b>112,753</b>          | <b>38,683</b>   |                   | <b>239,833</b>  |
| Interest expense  |                  |                         |                 | (75,232)          | (75,232)        |
| Administrative expense  |                  |                         |                 | (11,820)          | (11,820)        |
| Depreciation and amortization   | (27,732)         | (29,533)                | (16,814)        | (1,010)           | (75,089)        |
| <b>Income before minority interests<br/>and discontinued operations</b> | <b>\$60,665</b>  | <b>\$83,220</b>         | <b>\$21,869</b> | <b>(\$88,062)</b> | <b>\$77,692</b> |
| Capital expenditures  | \$82,944         | \$81,165                | \$124,122       |                   | \$288,231       |
| Real estate assets  | \$813,617        | \$903,878               | \$752,654       |                   | \$2,470,149     |
| <b><u>2002</u></b>  | <b>Northeast</b> | <b>Mid<br/>Atlantic</b> | <b>West</b>     | <b>Other</b>      | <b>Total</b>    |
| Rental income   | \$120,302        | \$139,487               | \$35,227        | \$0               | \$295,016       |
| Other property income   | 5,480            | 7,509                   | 2,479           |                   | 15,468          |
| Interest and other income   | 3,736            | 937                     | 483             |                   | 5,156           |
| Rental expense  | (22,751)         | (31,872)                | (18,367)        |                   | (72,990)        |

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|   |                  |                     |                 |                    |                 |
|---|------------------|---------------------|-----------------|--------------------|-----------------|
| Real estate tax   | (15,746)         | (11,757)            | (3,184)         |                    | (30,687)        |
| <b>Property operating income</b>                                    | <b>91,021</b>    | <b>104,304</b>      | <b>16,638</b>   |                    | <b>211,963</b>  |
| Interest expense  |                  |                     |                 | (65,058)           | (65,058)        |
| Administrative expense  |                  |                     |                 | (13,790)           | (13,790)        |
| Restructuring expense   |                  |                     |                 | (22,269)           | (22,269)        |
| Depreciation and amortization                                       | (27,338)         | (27,045)            | (8,583)         | (811)              | (63,777)        |
| <b>Income before minority interests and discontinued operations</b> | <b>\$63,683</b>  | <b>\$77,259</b>     | <b>\$8,055</b>  | <b>(\$101,928)</b> | <b>\$47,069</b> |
| Capital expenditures  | \$10,539         | \$34,265            | \$220,539       |                    | \$265,343       |
| Real estate assets  | \$747,778        | \$827,090           | \$731,958       |                    | \$2,306,826     |
| <b>2001</b>   | <b>Northeast</b> | <b>Mid Atlantic</b> | <b>West</b>     | <b>Other</b>       | <b>Total</b>    |
| Rental income   | \$111,083        | \$123,932           | \$34,273        | \$0                | \$269,288       |
| Other property income   | 5,430            | 5,697               | 2,580           |                    | 13,707          |
| Interest and other income   | 4,379            | 1,434               | 777             |                    | 6,590           |
| Rental expense  | (22,676)         | (28,239)            | (10,704)        |                    | (61,619)        |
| Real estate tax   | (14,959)         | (9,941)             | (2,746)         |                    | (27,646)        |
| <b>Property operating income</b>                                    | <b>83,257</b>    | <b>92,883</b>       | <b>24,180</b>   |                    | <b>200,320</b>  |
| Interest expense  |                  |                     |                 | (69,313)           | (69,313)        |
| Administrative expense  |                  |                     |                 | (14,281)           | (14,281)        |
| Depreciation and amortization                                       | (26,475)         | (23,736)            | (6,986)         | (1,034)            | (58,231)        |
| <b>Income before minority interests and discontinued operations</b> | <b>\$56,782</b>  | <b>\$69,147</b>     | <b>\$17,194</b> | <b>(\$84,628)</b>  | <b>\$58,495</b> |
| Capital expenditures  | \$15,386         | \$87,706            | \$169,278       |                    | \$272,370       |

|                    |           |           |           |             |
|--------------------|-----------|-----------|-----------|-------------|
| Real estate assets | \$760,849 | \$793,566 | \$549,889 | \$2,104,304 |
|--------------------|-----------|-----------|-----------|-------------|

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There are no transactions between geographic areas.

-F28-

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**NOTE 16. QUARTERLY DATA (UNAUDITED)**

The following summary represents the results of operations for each quarter in 2003 and 2002 (in thousands, except per share data):

|   | First<br>Quarter  | Second<br>Quarter | Third<br>Quarter  | Fourth<br>Quarter |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <u>2003</u>                                   |                   |                   |                   |                   |
| Revenue (1)                                   | \$84,091          | \$84,745          | \$85,836          | \$97,825          |
| Net income (loss) available for common shares | 11,520            | 10,213            | 21,726            | 31,998            |
| Earnings (loss) per common share basic        | 0.26              | 0.22              | 0.44              | 0.66              |
| Earnings (loss) per common share diluted      | 0.26              | 0.21              | 0.43              | 0.64              |
|   | First<br>Quarter  | Second<br>Quarter | Third<br>Quarter  | Fourth<br>Quarter |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <u>2002</u>                                   |                   |                   |                   |                   |
| Revenue (1)                                   | \$73,975          | \$74,939          | \$76,010          | \$90,716          |
| Net income available for common shares        | (6,187)           | 30,479            | 13,648            | (2,078)           |
| Earnings per common share basic               | (0.15)            | 0.75              | 0.32              | (0.05)            |
| Earnings per common share diluted             | (0.15)            | 0.74              | 0.31              | (0.05)            |

- (1) As required by SFAS No. 144 revenue has been reduced to reflect the discontinued assets sold. Total revenue from these discontinued assets, by quarter, is summarized as follows (in thousands):

|                                       | First<br>Quarter  | Second<br>Quarter | Third<br>Quarter  | Fourth<br>Quarter |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                       | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| 2003 Revenue from discontinued assets |                   | (9)               | (180)             | 2,565             |
| 2002 Revenue from discontinued assets | 1,219             | 624               | 590               | 3,137             |

FEDERAL REALTY INVESTMENT TRUST  
SCHEDULE III  
SUMMARY OF REAL ESTATE AND ACCUMULATED DEPRECIATION  
DECEMBER 31, 2003

| COLUMN A                        | COLUMN B     | COLUMN C                |                           | COLUMN D                                   | COLUMN E   |                           |              |
|---------------------------------|--------------|-------------------------|---------------------------|--|--|---------------------------|--------------|
| Descriptions                    | Encumbrance  | Initial cost to company |                           |  | Gross amount at which carried at close of period |                           |              |
|                                 |              | Land                    | Building and Improvements | Cost Capitalized Subsequent to Acquisition | Land   | Building and Improvements | Total        |
| ALLWOOD (New Jersey)            | \$ 3,501,000 |                         | \$ 3,920,000              | \$ 376,465                                 |  | \$ 4,296,465              | \$ 4,296,465 |
| ANDORRA (Pennsylvania)          |              | 2,432,000               | 12,346,000                | 4,538,531                                  | 2,432,107  | 16,884,531                | 19,316,638   |
| ARIZONA BUILDINGS (2)           |              | 1,334,000               | 9,104,000                 | 629,481                                    | 1,334,085  | 9,733,481                 | 11,067,566   |
| BALA CYNWYD (Pennsylvania)      |              | 3,565,000               | 14,466,000                | 5,967,942                                  | 3,565,000  | 20,433,942                | 23,998,942   |
| BARRACKS ROAD (Virginia)        | 44,222,000   | 4,363,000               | 16,459,000                | 18,749,106                                 | 4,362,713  | 35,208,106                | 39,570,819   |
| BETHESDA ROW (Maryland)         | 12,576,000   | 9,114,000               | 20,821,000                | 51,277,294                                 | 7,415,873  | 72,085,294                | 79,501,167   |
| BLUESTAR (New Jersey)           | 26,724,000   |                         | 29,922,000                | 9,598,204                                  |  | 39,520,204                | 39,520,204   |
| BRICK PLAZA (New Jersey)        | 32,936,000   |                         | 24,715,000                | 29,154,110                                 | 3,788,189  | 50,081,110                | 53,869,299   |
| BRISTOL (Connecticut)           |              | 3,856,000               | 15,959,000                | 2,517,080                                  | 3,856,302  | 18,476,080                | 22,332,382   |
| BRUNSWICK (New Jersey)          | 11,125,000   |                         | 12,456,000                | 8,878,078                                  |  | 21,334,078                | 21,334,078   |
| CALIFORNIA RETAIL BUILDINGS     |              |                         |                           |  |  |                           |              |
| SANTA MONICA (9)                |              | 22,645,000              | 12,709,000                | 36,912,290                                 | 22,644,437                                       | 49,621,290                | 72,265,727   |
| SAN DIEGO (4)                   |              | 3,844,000               | 1,352,000                 | 6,930,285                                  | 3,843,617  | 8,282,285                 | 12,125,902   |
| 150 POST STREET (San Francisco) |              | 11,685,000              | 9,181,000                 | 9,159,102                                  | 11,685,000                                       | 18,340,102                | 30,025,102   |
| OTHER (5)                       |              | 19,496,000              | 25,752,000                | 8,151,018                                  | 11,830,439                                       | 33,903,018                | 45,733,457   |
| CLIFTON (New Jersey)            | 3,256,000    |                         | 3,646,000                 | 1,305,420                                  |  | 4,951,420                 | 4,951,420    |

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|                                       |            |            |            |              |            |            |            |
|---------------------------------------|------------|------------|------------|--------------|------------|------------|------------|
| CONGRESSIONAL PLAZA (Maryland)        |            | 2,793,000  | 7,424,000  | 58,026,387   | 1,019,875  | 65,450,387 | 66,470,262 |
| CONNECTICUT RETAIL BUILDINGS (5)      |            | 25,061,000 | 27,739,000 | (14,656,484) | 10,912,328 | 13,082,516 | 23,994,844 |
| COURTHOUSE CENTER (Maryland)          |            | 1,750,000  | 1,869,000  | 675,890      | 1,750,000  | 2,544,890  | 4,294,890  |
| CROSSROADS (Illinois)                 |            | 4,635,000  | 11,611,000 | 5,566,137    | 4,634,570  | 17,177,137 | 21,811,707 |
| DEDHAM PLAZA (Massachusetts)          |            | 12,369,000 | 12,918,000 | 4,363,599    | 12,368,893 | 17,281,599 | 29,650,492 |
| EASTGATE (North Carolina)             |            | 1,608,000  | 5,775,000  | 9,153,550    | 1,607,610  | 14,928,550 | 16,536,160 |
| ELLISBURG CIRCLE (New Jersey)         |            | 4,028,000  | 11,309,000 | 12,706,821   | 4,012,782  | 24,015,821 | 28,028,603 |
| ESCONDIDO PROMENADE (California)      |            | 11,505,000 | 12,147,000 | 1,201,619    | 11,504,980 | 13,348,619 | 24,853,599 |
| FALLS PLAZA (Virginia)                |            | 1,260,000  | 735,000    | 6,199,419    | 1,260,216  | 6,934,419  | 8,194,635  |
| FALLS PLAZA East (Virginia)           |            | 538,000    | 535,000    | 2,282,313    | 559,252    | 2,796,061  | 3,355,313  |
| FEASTERVILLE (Pennsylvania)           |            | 1,431,000  | 1,600,000  | 8,618,959    | 1,430,781  | 10,218,959 | 11,649,740 |
| FEDERAL PLAZA (Maryland)              | 35,543,000 | 10,216,000 | 17,895,000 | 33,813,475   | 10,216,206 | 51,708,475 | 61,924,681 |
| FINLEY SQUARE (Illinois)              |            | 9,252,000  | 9,544,000  | 9,563,089    | 9,251,776  | 19,107,089 | 28,358,865 |
| FLORIDA RETAIL BUILDINGS (2)          |            | 5,206,000  | 1,631,000  | 39,862       | 5,206,073  | 1,670,862  | 6,876,935  |
| FLOURTOWN (Pennsylvania)              |            | 1,345,000  | 3,943,000  | 3,467,840    | 1,345,075  | 7,410,840  | 8,755,915  |
| FRESH MEADOWS (New York)              |            | 24,625,000 | 25,255,000 | 14,764,654   | 24,626,889 | 40,019,654 | 64,646,543 |
| FRIENDSHIP CTR (District of Columbia) |            | 12,696,000 | 20,803,000 | (190,317)    | 12,696,367 | 20,612,683 | 33,309,050 |
| GAITHERSBURG SQUARE (Maryland)        |            | 7,701,000  | 5,271,000  | 10,933,112   | 6,012,077  | 17,893,035 | 23,905,112 |
| GARDEN MARKET (Illinois)              |            | 2,677,000  | 4,829,000  | 3,632,391    | 2,677,200  | 8,461,391  | 11,138,591 |
| GOVERNOR PLAZA (Maryland)             |            | 2,068,000  | 4,905,000  | 11,667,108   | 2,068,227  | 16,572,108 | 18,640,335 |
| GRATIOT PLAZA (Michigan)              |            | 525,000    | 1,601,000  | 14,510,795   | 525,316    | 16,111,795 | 16,637,111 |
| GREENLAWN (New York)                  |            | 2,294,000  | 3,864,000  | 4,881,221    | 2,294,400  | 8,745,221  | 11,039,621 |

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|                                 |            |           |            |            |           |            |            |
|---------------------------------|------------|-----------|------------|------------|-----------|------------|------------|
| HAMILTON (New Jersey)           | 4,827,000  |           | 5,405,000  | 2,682,120  |           | 8,087,120  | 8,087,120  |
| HAUPPAUGE (New York)            | 16,670,000 | 8,791,000 | 15,262,000 | 2,266,896  | 8,791,315 | 17,528,896 | 26,320,211 |
| HUNTINGTON (New York)           | 14,297,000 |           | 16,008,000 | 6,424,765  |           | 22,432,765 | 22,432,765 |
| IDYLWOOD PLAZA (Virginia)       |            | 4,308,000 | 10,026,000 | 580,431    | 4,307,775 | 10,606,431 | 14,914,206 |
| ILLINOIS RETAIL BUILDINGS (1)   |            | 1,291,000 | 2,325,000  | (48,646)   | 943,500   | 2,276,354  | 3,219,854  |
| KINGS COURT (California)        |            |           | 10,714,000 | 695,069    |           | 11,409,069 | 11,409,069 |
| LANCASTER (Pennsylvania)        | 4,907,000  |           | 2,103,000  | 7,907,845  |           | 10,010,845 | 10,010,845 |
| LANGHORNE SQUARE (Pennsylvania) |            | 720,000   | 2,974,000  | 13,942,533 | 720,000   | 16,916,533 | 17,636,533 |
| LAUREL (Maryland)               |            | 7,458,000 | 22,525,000 | 15,674,386 | 7,458,514 | 38,199,386 | 45,657,900 |
| LAWRENCE PARK (Pennsylvania)    | 31,344,000 | 5,723,000 | 7,160,000  | 12,938,579 | 5,734,209 | 20,087,579 | 25,821,788 |
| LEESBURG PLAZA (Virginia)       | 9,900,000  | 8,184,000 | 10,722,000 | 1,609,710  | 8,184,400 | 12,331,710 | 20,516,110 |
| LOEHMANN S PLAZA (Virginia)     |            | 1,237,000 | 15,096,000 | 9,060,647  | 1,248,000 | 24,145,647 | 25,393,647 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| <b>COLUMN A</b>            | <b>COLUMN F</b>                                  | <b>COLUMN G</b>             | <b>COLUMN H</b>      | <b>COLUMN I</b>   |
|----------------------------|--|-----------------------------|----------------------|---|
| <b>Descriptions</b>        | <b>Accumulated Depreciation and Amortization</b> | <b>Date of Construction</b> | <b>Date Acquired</b> | <b>Life on which depreciation in latest income statements is computed</b> |
| ALLWOOD (New Jersey)       | \$ 1,933,125                                     | 1958                        | 12/12/88             | 35 years  |
| ANDORRA (Pennsylvania)     | 8,898,022  | 1953                        | 01/12/88             | 35 years  |
| ARIZONA BUILDINGS (2)      | 1,570,087  | 1995-1998                   | 05/07/98             | 35 years  |
| BALA CYNWYD (Pennsylvania) | 6,615,057  | 1955                        | 09/22/93             | 35 years  |

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|  |            |           |           |               |
|--|------------|-----------|-----------|---------------|
| BARRACKS ROAD<br>(Virginia)              | 21,565,644 | 1958      | 12/31/85  | 35 years      |
| BETHESDA ROW<br>(Maryland)               | 14,301,523 | 1945-2000 | 12/31/93  | 35 - 50 years |
| BLUESTAR (New Jersey)                    | 16,443,014 | 1959      | 12/12/88  | 35 years      |
| BRICK PLAZA (New<br>Jersey)              | 20,717,524 | 1958      | 12/28/89  | 35 years      |
| BRISTOL (Connecticut)                    | 4,825,019  | 1959      | 9/22/95   | 35 years      |
| BRUNSWICK (New<br>Jersey)                | 8,042,794  | 1957      | 12/12/88  | 35 years      |
| CALIFORNIA RETAIL<br>BUILDINGS           |            |           |           |               |
| SANTA MONICA (9)                         | 8,152,631  | 1888-2000 | 1996-2000 | 35 years      |
| SAN DIEGO (4)                            | 1,152,489  | 1888-1995 | 1996-1997 | 35 years      |
| 150 POST STREET (San<br>Francisco)       | 3,203,171  | 1908      | 10/23/97  | 35 years      |
| OTHER (5)                                | 3,694,367  | var       | 1996-1999 | 35 years      |
| CLIFTON (New Jersey)                     | 2,259,063  | 1959      | 12/12/88  | 35 years      |
| CONGRESSIONAL<br>PLAZA (Maryland)        | 20,992,104 | 1965      | 04/01/65  | 35 years      |
| CONNECTICUT RETAIL<br>BUILDINGS (5)      | 2,552,271  | 1900-1991 | 1994-1996 | 35 years      |
| COURTHOUSE CENTER<br>(Maryland)          | 393,826    | 1975      | 12/17/97  | 35 years      |
| CROSSROADS (Illinois)                    | 5,968,446  | 1959      | 07/19/93  | 35 years      |
| DEDHAM PLAZA<br>(Massachusetts)          | 5,384,800  | 1959      | 12/31/93  | 35 years      |
| EASTGATE (North<br>Carolina)             | 6,749,644  | 1963      | 12/18/86  | 35 years      |
| ELLISBURG CIRCLE<br>(New Jersey)         | 10,974,900 | 1959      | 10/16/92  | 35 years      |
| ESCONDIDO<br>PROMENADE<br>(California)   | 2,782,374  | 1987      | 12/31/96  | 35 years      |
| FALLS PLAZA (Virginia)                   | 2,556,176  | 1962      | 09/30/67  | 22 3/4 years  |
| FALLS PLAZA East<br>(Virginia)           | 2,693,618  | 1960      | 10/05/72  | 25 years      |
| FEASTERVILLE<br>(Pennsylvania)           | 5,418,488  | 1958      | 07/23/80  | 20 years      |
| FEDERAL PLAZA<br>(Maryland)              | 19,826,810 | 1970      | 06/29/89  | 35 years      |
| FINLEY SQUARE<br>(Illinois)              | 5,806,120  | 1974      | 04/27/95  | 35 years      |
| FLORIDA RETAIL<br>BUILDINGS (2)          | 377,495    | 1920      | 02/28/96  | 35 years      |
| FLOURTOWN<br>(Pennsylvania)              | 4,065,261  | 1957      | 04/25/80  | 35 years      |
| FRESH MEADOWS<br>(New York)              | 7,973,500  | 1946-1949 | 12/05/97  | 35 years      |
| FRIENDSHIP CTR<br>(District of Columbia) | 1,384,762  | 1998      | 09/21/01  | 35 years      |



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|                                    |            |           |           |              |
|------------------------------------|------------|-----------|-----------|--------------|
| GAITHERSBURG<br>SQUARE (Maryland)  | 7,438,264  | 1966      | 04/22/93  | 35 years     |
| GARDEN MARKET<br>(Illinois)        | 2,210,595  | 1958      | 07/28/94  | 35 years     |
| GOVERNOR PLAZA<br>(Maryland)       | 9,841,899  | 1963      | 10/01/85  | 35 years     |
| GRATIOT PLAZA<br>(Michigan)        | 5,685,297  | 1964      | 03/29/73  | 25 3/4 years |
| GREENLAWN (New<br>York)            | 1,210,900  | 1975      | 01/05/00  | 35 years     |
| HAMILTON (New Jersey)              | 4,194,263  | 1961      | 12/12/88  | 35 years     |
| HAUPPAUGE (New<br>York)            | 2,747,127  | 1963      | 08/06/98  | 35 years     |
| HUNTINGTON (New<br>York)           | 10,877,818 | 1962      | 12/12/88  | 35 years     |
| IDYLWOOD PLAZA<br>(Virginia)       | 3,081,516  | 1991      | 04/15/94  | 35 years     |
| ILLINOIS RETAIL<br>BUILDINGS (1)   | 676,410    | 1900-1927 | 1995-1997 | 35 years     |
| KINGS COURT<br>(California)        | 2,320,554  | 1960      | 08/24/98  | 26 years     |
| LANCASTER<br>(Pennsylvania)        | 4,383,241  | 1958      | 04/24/80  | 22 years     |
| LANGHORNE SQUARE<br>(Pennsylvania) | 6,917,094  | 1966      | 01/31/85  | 35 years     |
| LAUREL (Maryland)                  | 20,213,360 | 1956      | 08/15/86  | 35 years     |
| LAWRENCE PARK<br>(Pennsylvania)    | 15,299,908 | 1972      | 07/23/80  | 22 years     |
| LEESBURG PLAZA<br>(Virginia)       | 2,083,698  | 1967      | 09/15/98  | 35 years     |
| LOEHMANN S PLAZA<br>(Virginia)     | 4,007,035  | 1971      | 07/21/83  | 35 years     |

-F30-

| COLUMN A   | COLUMN B    | COLUMN C                |                           | COLUMN D                                   | COLUMN E   |                           |            |
|--|-------------|-------------------------|---------------------------|--|--|---------------------------|------------|
| Descriptions   | Encumbrance | Initial cost to company |                           |  | Gross amount at which carried at close of period |                           |            |
|  |             | Land                    | Building and Improvements | Cost Capitalized Subsequent to Acquisition | Land   | Building and Improvements | Total      |
| MAGRUDERS<br>(Maryland)  |             | 4,554,000               | 4,859,000                 | 1,612,568                                  | 4,553,875  | 6,471,693                 | 11,025,568 |
| MERCER MALL<br>(New Jersey)  | 60,039,000  | 4,488,340               | 70,076,308                | 2,018,015                                  | 4,488,340  | 72,094,323                | 76,582,663 |
| MID PIKE<br>PLAZA<br>(Maryland)                                    | 10,041,000  |                         | 10,335,000                | 6,945,454                                  |  | 17,280,454                | 17,280,454 |
| MOUNT<br>VERNON<br>PLAZA (Virginia)                                | 13,086,000  |                         | 19,400,134                | 389,568                                    | 0  | 19,790,302                | 19,790,302 |
| NEW YORK<br>RETAIL<br>BUILDINGS (3)<br>NORTHEAST<br>(Pennsylvania) |             | 5,891,000               | 6,051,000                 | 12,026,646                                 | 6,196,618  | 17,772,028                | 23,968,646 |
| NORTH LAKE<br>COMMONS<br>(Illinois)                                |             | 1,152,000               | 10,596,000                | 10,082,356                                 | 1,152,825  | 20,677,531                | 21,830,356 |
| OLD KEENE<br>MILL (Virginia)                                       |             | 2,782,000               | 8,604,000                 | 1,606,300                                  | 2,782,495  | 10,210,300                | 12,992,795 |
| OLD TOWN<br>CENTER<br>(California)                                 |             | 638,000                 | 998,000                   | 3,515,685                                  | 638,234  | 4,513,685                 | 5,151,919  |
| PAN AM<br>SHOPPING<br>CENTER<br>(Virginia)                         |             | 3,420,000               | 2,765,000                 | 27,322,592                                 | 3,420,000  | 30,087,592                | 33,507,592 |
| PENTAGON<br>ROW (Virginia)   |             | 8,694,000               | 12,929,000                | 3,454,960                                  | 8,694,500  | 16,383,460                | 25,077,960 |
| PERRING<br>PLAZA<br>(Maryland)                                     |             |                         | 2,955,000                 | 84,582,651                                 |  | 87,537,651                | 87,537,651 |
| PIKE 7 (Virginia)  |             | 2,800,000               | 6,461,000                 | 14,728,058                                 | 2,800,000  | 21,189,058                | 23,989,058 |
| FR PLAZA DEL<br>MERCADO, LLC<br>(Maryland)                         |             | 9,709,000               | 22,799,000                | 924,287                                    | 9,708,997  | 23,723,290                | 33,432,287 |
| QUEEN ANNE<br>PLAZA<br>(Massachusetts)                             |             | 1,580,999               | 18,984,476                | 16,590                                     | 1,580,999  | 19,001,066                | 20,582,065 |
|  |             | 3,319,000               | 8,457,000                 | 3,000,898                                  | 3,319,148  | 11,457,898                | 14,777,046 |

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|   |                      |                      |                      |                        |                      |                        |                        |
|---|----------------------|----------------------|----------------------|------------------------|----------------------|------------------------|------------------------|
| QUINCE<br>ORCHARD<br>PLAZA<br>(Maryland)                |                      | 3,197,000            | 7,949,000            | 7,966,391              | 2,928,242            | 16,184,149             | 19,112,391             |
| ROLLINGWOOD<br>APTS.<br>(Maryland)                      |                      | 552,000              | 2,246,000            | 3,889,931              | 572,160              | 6,115,771              | 6,687,931              |
| RUTGERS (New<br>Jersey)                                 | 12,887,000           |                      | 14,429,000           | 1,495,622              |                      | 15,924,622             | 15,924,622             |
| SAM S PARK &<br>SHOP (District of<br>Columbia)          |                      | 4,840,000            | 6,319,000            | 626,900                | 4,840,000            | 6,945,900              | 11,785,900             |
| SAUGUS<br>(Massachusetts)                               |                      | 4,383,000            | 8,291,000            | 509,805                | 4,383,000            | 8,800,805              | 13,183,805             |
| SHIRLINGTON<br>(Virginia)                               |                      | 9,761,000            | 14,808,000           | 8,693,336              | 9,815,093            | 23,447,243             | 33,262,336             |
| SOUTH<br>VALLEY<br>SHOPPING<br>CENTER<br>(Virginia)     |                      | 9,043,035            | 5,082,062            | 168,404                | 9,043,035            | 5,250,466              | 14,293,501             |
| SANTANA ROW<br>(California)                             |                      | 41,969,000           | 1,161,000            | 376,732,114            | 41,968,500           | 334,763,614            | 376,732,114            |
| TEXAS RETAIL<br>BUILDINGS (9)<br>TOWER<br>(Virginia)    | 230,000              | 14,680,000           | 1,976,000            | 43,693,746             | 14,679,954           | 45,669,792             | 60,349,746             |
| TROY (New<br>Jersey)                                    |                      | 3,126,000            | 5,193,000            | 12,193,796             | 3,125,728            | 17,386,796             | 20,512,524             |
| TYSONS<br>STATION<br>(Virginia)                         | 6,752,000            | 388,000              | 453,000              | 2,510,443              | 474,542              | 2,876,901              | 3,351,443              |
| WILDWOOD<br>(Maryland)                                  | 27,551,000           | 9,111,000            | 1,061,000            | 6,411,780              | 9,110,822            | 7,472,780              | 16,583,602             |
| WILLOW<br>GROVE<br>(Pennsylvania)                       |                      | 1,499,000            | 6,643,000            | 18,119,984             | 1,498,560            | 24,762,984             | 26,261,544             |
| WILLOW LAWN<br>(Virginia)                               |                      | 3,192,000            | 7,723,000            | 49,975,061             | 7,790,283            | 53,099,778             | 60,890,061             |
| WYNNEWOOD<br>(Pennsylvania)                             | 31,943,000           | 8,055,000            | 13,759,000           | 13,436,507             | 8,055,000            | 27,195,507             | 35,250,507             |
| DEVELOPMENT<br>PROJECTS:<br>SANTANA ROW<br>(California) |                      |                      |                      | 73,411,286             | 0                    | 74,572,286             | 74,572,286             |
| Adj in<br>consolidation trust<br>acq cost Misc.         |                      |                      |                      |                        |                      |                        | 11,552                 |
| <b>TOTALS</b>   | <b>\$414,357,000</b> | <b>\$435,623,374</b> | <b>\$840,212,580</b> | <b>\$1,261,930,013</b> | <b>\$416,875,971</b> | <b>\$2,053,262,293</b> | <b>\$2,470,149,816</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| <b>COLUMN A</b>  | <b>COLUMN F</b>  | <b>COLUMN G</b>                     | <b>COLUMN H</b>          | <b>COLUMN I</b>   |
|--|--|-------------------------------------|--------------------------|---|
| <b>Descriptions</b>                                    | <b>Accumulated<br/>Depreciation and<br/>Amortization</b> | <b>Date<br/>of<br/>Construction</b> | <b>Date<br/>Acquired</b> | <b>Life on which<br/>depreciation in<br/>latest<br/>income<br/>statements<br/>is computed</b> |
| MAGRUDERS (Maryland)                                   | 1,037,021  | 1955                                | 12/17/97                 | 35 years  |
| MERCER MALL (New<br>Jersey)                            | 611,396  | 2,003                               | 12/4/03                  | 35 years-50<br>years  |
| MID PIKE PLAZA<br>(Maryland)                           | 9,733,402  | 1963                                | 05/18/82                 | 50 years  |
| MOUNT VERNON PLAZA<br>NEW YORK RETAIL<br>BUILDINGS (3) | 420,357  | 2,003                               | 3/31/03                  | 35 years  |
| NORTHEAST<br>(Pennsylvania)                            | 2,534,887  | 1937 - 1987                         | 12/16/97                 | 35 years  |
| NORTH LAKE<br>COMMONS (Illinois)                       | 11,565,958   | 1959                                | 08/30/83                 | 35 years  |
| OLD KEENE MILL<br>(Virginia)                           | 2,927,225  | 1989                                | 04/27/94                 | 35 years  |
| OLD TOWN CENTER<br>(California)                        | 3,624,104  | 1968                                | 06/15/76                 | 33 1/3 years  |
| PAN AM SHOPPING<br>CENTER (Virginia)                   | 5,425,367  | 1997-1998                           | 10/22/97                 | 35 years  |
| PENTAGON ROW<br>(Virginia)                             | 6,392,970  | 1979                                | 02/05/93                 | 35 years  |
| PERRING PLAZA<br>(Maryland)                            | 6,673,815  | 1999 - 2002                         | 1998                     | 35 years  |
| PIKE 7 (Virginia)                                      | 11,624,174   | 1963                                | 10/01/85                 | 35 years  |
| FR PLAZA DEL<br>MERCADO, LLC<br>(Maryland)             | 5,012,239  | 1968                                | 03/31/97                 | 35 years  |
| QUEEN ANNE PLAZA<br>(Massachusetts)                    | 45,095   | 2,003                               | 10/31/03                 | 35 years  |
| QUINCE ORCHARD<br>PLAZA (Maryland)                     | 4,101,476  | 1967                                | 12/23/94                 | 35 years  |
| ROLLINGWOOD APTS.<br>(Maryland)                        | 6,696,268  | 1975                                | 04/22/93                 | 35 years  |
| RUTGERS (New Jersey)                                   | 6,052,622  | 1960                                | 01/15/71                 | 25 years  |
|  | 7,030,201  | 1973                                | 12/12/88                 | 35 years  |

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|   |                      |             |           |              |
|---|----------------------|-------------|-----------|--------------|
| SAM S PARK & SHOP<br>(District of Columbia)             | 1,864,897            | 1930        | 12/01/95  | 35 years     |
| SAUGUS (Massachusetts)                                  | 1,953,413            | 1976        | 10/01/96  | 35 years     |
| SHIRLINGTON (Virginia)                                  | 5,061,861            | 1940        | 12/21/95  | 35 years     |
| SOUTH VALLEY<br>SHOPPING CENTER<br>(Virginia)           | 109,139              | 2,003       | 3/21/03   | 35 years     |
| SANTANA ROW<br>(California)                             | 8,776,675            | 1999 - 2002 | 03/05/97  | 50 years     |
| TEXAS RETAIL<br>BUILDINGS (9)                           | 2,631,199            | var         | 1998-1999 | 35 years     |
| TOWER (Virginia)  | 1,811,294            | 1953-1960   | 08/24/98  | 35 years     |
| TROY (New Jersey)                                       | 12,197,111           | 1966        | 07/23/80  | 22 years     |
| TYSONS STATION<br>(Virginia)                            | 2,511,561            | 1954        | 01/17/78  | 17 years     |
| WILDWOOD (Maryland)                                     | 6,217,473            | 1958        | 05/05/69  | 33 1/3 years |
| WILLOW GROVE<br>(Pennsylvania)                          | 12,954,406           | 1953        | 11/20/84  | 35 years     |
| WILLOW LAWN<br>(Virginia)                               | 27,707,691           | 1957        | 12/05/83  | 35 years     |
| WYNNEWOOD<br>(Pennsylvania)                             | 6,375,843            | 1948        | 10/29/96  | 35 years     |
| DEVELOPMENT<br>PROJECTS:<br>SANTANA ROW<br>(California) | 23,537               | 1999 - 2002 | 03/05/97  | 50 years     |
| Adj in consolidation trust<br>acq cost Misc.            |                      |             |           |              |
| TOTALS  | <u>\$514,176,448</u> |             |           |              |

**FEDERAL REALTY INVESTMENT TRUST  
SCHEDULE III  
SUMMARY OF REAL ESTATE AND ACCUMULATED  
DEPRECIATION CONTINUED  
Three Years Ended December 31, 2003**

**Reconciliation of Total Cost**

|  |                            |
|--|----------------------------|
| Balance, December 31, 2000   | 1,854,913,000              |
| Additions during period  |                            |
| Acquisitions   | 52,820,000                 |
| Improvements   | 219,549,000                |
| Deduction during period disposition<br>of property and miscellaneous retirements | <u>(22,978,000)</u>        |
| <br>Balance, December 31, 2001   | <br>2,104,304,000          |
| Additions during period  |                            |
| Acquisitions   |                            |
| Improvements   | 265,531,000                |
| Deduction during period disposition<br>of property and miscellaneous retirements | <u>(63,009,000)</u>        |
| <br>Balance, December 31, 2002   | <br>\$2,306,826,000        |
| Additions during period  |                            |
| Acquisitions   | 127,489,000                |
| Improvements   | 64,848,000                 |
| Deduction during period disposition of property and<br>miscellaneous retirements | <u>(29,014,000)</u>        |
| <br>Balance, December 31, 2003   | <br><u>\$2,470,149,000</u> |

(A) For Federal tax purposes, the aggregate cost basis is approximately \$2,194,269,000 as of December 31, 2003.

**FEDERAL REALTY INVESTMENT TRUST  
SCHEDULE III  
SUMMARY OF REAL ESTATE AND ACCUMULATED  
DEPRECIATION CONTINUED  
Three Years Ended December 31, 2003**

**Reconciliation of Accumulated  
Depreciation and Amortization**

|  |                          |
|--|--------------------------|
| Balance, December 31, 2000   | 351,258,000              |
| Additions during period  |                          |
| Depreciation and amortization expense  | 55,048,000               |
| Deductions during period disposition of property, miscellaneous retirements and acquisition of minority interest | <u>(10,539,000)</u>      |
| <br>Balance, December 31, 2001   | <br>395,767,000          |
| Additions during period  |                          |
| Depreciation and amortization expense  | 59,296,000               |
| Deductions during period disposition of property, miscellaneous retirements and acquisition of minority interest | <u>(4,366,000)</u>       |
| <br>Balance, December 31, 2002   | <br>\$450,697,000        |
| Additions during period  |                          |
| Depreciation and amortization expense  | 68,125,000               |
| Deductions during period disposition of property, miscellaneous retirements and acquisition of minority interest | <u>(4,645,000)</u>       |
| <br>Balance, December 31, 2003   | <br><u>\$514,177,000</u> |

**FEDERAL REALTY INVESTMENT TRUST**  
**SCHEDULE IV**  
**MORTGAGE LOANS ON REAL ESTATE**  
**Year Ended December 31, 2003**

| Column A   | Column B                        | Column C      | Column D   | Column E    | Column F                 | Column G                         |
|--|---------------------------------|---------------|--|-------------|--------------------------|----------------------------------|
| Description of Lien  | Interest Rate                   | Maturity Date | Periodic Payment Terms                                 | Prior Liens | Face Amount of Mortgages | Carrying Amount of Mortgages (1) |
| Leasehold mortgage on office building in San Francisco, CA | 6.00 %                          | March 2005    | Interest only monthly; balloon payment due at maturity |             | \$ 5,618,000             | \$ 5,876,000 (2)                 |
| Mortgage on Hotel in San Jose, CA                          | 12% to 15%                      | January 2012  | (3)  |             | 10,600,000               | 10,600,000                       |
| Mortgage on retail buildings in Philadelphia, PA           | Greater of prime plus 2% or 10% | May 2021      | Interest only monthly; balloon payment due at maturity |             | 25,000,000               | 15,774,000 (4)                   |
| Mortgage on retail buildings in Philadelphia, PA           | 10% plus participation          | May 2021      | Interest only; balloon payment due at maturity         |             | 9,250,000                | 9,250,000                        |
|  |                                 |               |  |             | <u>\$50,468,000</u>      | <u>\$41,500,000</u>              |

1) For Federal tax purposes, the aggregate tax basis is approximately \$41,500,000 as of December 31, 2003. No payments are delinquent on these mortgages.

2)



A \$5.9 million loan receivable, which currently bears interest at 7.88% and is secured by an office building in San Francisco, California, was due February 28, 2003 but was not repaid on the due date. We are currently negotiating with the borrower to extend the loan until March 31, 2005. When the loan modification is complete, the interest rate on the note will decrease to 6% retroactive to July 1, 2003. Interest on the loan is current through December 31, 2003 and based in part on the value of the underlying collateral, we believe that the loan is collectible and as such, no reserve has been established at this time.

- 3) For the first five years interest is payable from cash flow, if available. If cash flow is not sufficient to pay interest in full, the unpaid amount will accrue and bear interest at the same rate as the principal. After year five, current interest payments are required. After year seven, mortgagee is required to apply 50% of all available cash flow to repayment of principal. In March 2004, an additional \$900,000 advance was made on this loan.
- 4) This mortgage is available for up to \$25,000,000.

-F34-

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**FEDERAL REALTY INVESTMENT TRUST  
SCHEDULE IV  
MORTGAGE LOANS ON REAL ESTATE CONTINUED  
Three Years Ended December 31, 2003**

**Reconciliation of Carrying Amount**

|                                      |               |
|--------------------------------------|---------------|
| Balance, December 31, 2000           | 47,360,000    |
| Additions during period              |               |
| Issuance of loans                    | 925,000       |
| Deductions during period             |               |
| Collection and satisfaction of loans | (12,678,000)  |
|                                      | <hr/>         |
| Balance, December 31, 2001           | 35,607,000    |
| Additions during period              |               |
| Issuance of loans                    | 14,362,000    |
| Deductions during period             |               |
| Collection and satisfaction of loans | (14,392,000)  |
|                                      | <hr/>         |
| Balance, December 31, 2002           | \$ 35,577,000 |
| Additions during period              |               |
| Issuance of loans                    | 5,923,000     |
| Deductions during period             |               |
| Collection and satisfaction of loans |               |
|                                      | <hr/>         |
| Balance, December 31, 2003           | \$ 41,500,000 |
|                                      | <hr/> <hr/>   |

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a)(1) *Financial Statements*

Report of Independent Public Accountants Grant Thornton LLP

Report of Independent Public Accountants Arthur Andersen LLP

Consolidated Balance Sheets December 31, 2003 and 2002

Consolidated Statements of Operations Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Common Shareholders' Equity Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements (including selected quarterly data)

(2) *Financial Statement Schedules*

Schedule III. Schedule of Real Estate and Accumulated Depreciation

Schedule IV. Mortgage Loans on Real Estate

(3) *Exhibits*

| Exhibit<br>No. | Description   |
|----------------|---|
| 3.1            | Declaration of Trust of Federal Realty Investment Trust dated May 5, 1999 (previously filed as Exhibit 3.2 to the Trust's Current Report on Form 8-K filed on May 25, 1999 (File No. 1-07533) and incorporated herein by reference)   |
| 3.2            | Amended and Restated Bylaws of Federal Realty Investment Trust last amended October 29, 2003 (previously filed as Exhibit 3.2 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 15, 2004 (the 2004 Form 10-K) and incorporated herein by reference) |
| 4.1            | Specimen Common Share certificate (previously filed as Exhibit 4(i) to the Trust's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-07533) (the 1999 Form 10-K) and incorporated herein by reference)  |
| 4.2            | Articles Supplementary relating to the 8 1/2% Series B Cumulative Redeemable Preferred Shares (previously filed as Exhibit 4.1 to the Trust's Registration Statement on Form 8-A filed on November 26, 2001 (File No. 1-07533) (the 2001 Form 8-A) and incorporated by reference)               |
| 4.3            | Specimen 8 1/2% Series B Cumulative Redeemable Preferred Share certificate (previously filed as Exhibit 4.2 to the 2001 Form 8-A and incorporated herein by reference)  |
| 4.4            | Amended and Restated Rights Agreement, dated March 11, 1999, between the Trust and American Stock Transfer & Trust Company (previously filed as Exhibit 1 to the Trust's Registration Statement on Form 8-A/A filed on March 11, 1999 (File No. 1-07533) and incorporated herein by reference)  |
| 4.5            | First Amendment to Amended and Restated Rights Agreement, dated as of November __, 2003, between the Trust and American Stock Transfer & Trust Company (previously filed as Exhibit 4.5 to the 2004 Form 10-K and incorporated herein by reference)   |
| 4.6            |   |

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Indenture dated December 13, 1993 related to the Trust's 7.48% Debentures due August 15, 2026; 6 5/8% Notes due 2005; 6.82% Medium Term Notes due August 1, 2027; and 6.99% Medium Term Notes due March 10, 2006 (previously filed as Exhibit 4(a) to the Trust's Registration Statement on Form S-3 (File No. 33-51029), and amended on Form S-3 (File No. 33-63687), filed on December 13, 1993 is incorporated herein by reference)

- 4.7 Indenture dated September 1, 1998 related to the Trust's 8.75% Notes due December 1, 2009 and the Trust's 6 1/8% Notes due November 15, 2007 and the Trust's 4.50% Notes due 2011 (previously filed as Exhibit 4(a) to the Trust's Registration Statement on Form S-3 (File No. 333-63619) filed on September 17, 1998 is incorporated herein by reference)
- 4.8 Pursuant to Regulation S-K Item 601(b)(4)(iii), the Trust by this filing agrees, upon request, to furnish to the Securities and Exchange Commission a copy of other instruments defining the rights of holders of long-term debt of the Trust
- 10.1 Amended and Restated 1983 Stock Option Plan and 1985 Non-Qualified Stock Option Plan of Federal Realty Investment Trust (previously filed as exhibits to the Trust's Registration Statement in Form S-8 (File No. 33-55111), filed on August 17, 1994 and incorporated herein by reference)

| Exhibit<br>No. | Description   |
|----------------|---|
| 10.2           | 1985 Non-Qualified Stock Option Plan (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1985 (File No. 1-07533) and incorporated herein by reference)   |
| 10.3           | 1991 Share Purchase Plan (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-07533) and incorporated herein by reference)   |
| 10.4           | Amendment dated October 1, 1992 to Voting Trust Agreement dated as of March 3, 1989 by and between I. Wolford Berman and Dennis L. Berman (previously filed as an exhibit to the Trust's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-07533) and incorporated herein by reference) |
| 10.5           | Amended and Restated 1993 Long-Term Incentive Plan, as amended on October 6, 1997 and further amended on May 6, 1998 (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-07533) and incorporated herein by reference)         |
| 10.6           | Fiscal Agency Agreement dated as of October 28, 1993 between the Trust and Citibank, N.A. (previously filed as an exhibit to the Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 (File No. 1-07533) (the 1993 Form 10-Q) and incorporated herein by reference)                     |
| 10.7           | Form of Severance Agreement between the Trust and Certain of its Officers dated December 31, 1994 (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-07533) and incorporated herein by reference)                            |
| 10.8           | * Performance Share Award Agreement dated as of February 9, 2000 between the Trust and Donald C. Wood (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-07533) (the 1999 Form 10-K) and incorporated herein by reference)   |
| 10.9           | * Restricted Share Award Agreement dated as of February 9, 2000 between the Trust and Donald C. Wood (previously filed as a portion of Exhibit 10 to the 1999 Form 10-K and incorporated herein by reference)   |
| 10.10          | * Severance Agreement between the Trust and Donald C. Wood dated February 22, 1999 (previously filed as a portion of Exhibit 10 to the 1999 Form 10-K and incorporated herein by reference)   |
| 10.11          | * Executive Agreement between Federal Realty Investment Trust and Donald C. Wood dated February 22, 1999 (previously filed as a portion of Exhibit 10 to the 1999 Form 10-K and incorporated herein by reference)   |
| 10.12          | * Amendment to Restricted Share Award Agreement dated December 8, 2000 the Trust and Donald C. Wood (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-07533) (the 2000 Form 10-K) and incorporated herein by reference)     |

- 10.13 \* Split Dollar Life Insurance Agreement dated August 12, 1998 between the Trust and Donald C. Wood (previously filed as a portion of Exhibit 10 to the 2000 Form 10-K and incorporated herein by reference)
- 10.14 \* Restricted Share Award Agreement dated as of February 15, 2000 between the Trust and Jeffrey S. Berkes (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-07533) (the 2001 Form 10-K ) and incorporated herein by reference)
- 10.15 \* Severance Agreement between the Trust and Jeffrey S. Berkes dated March 1, 2000 (previously filed as a portion of Exhibit 10 to the 2001 Form 10-K and incorporated herein by reference)
- 10.16 \* Severance Agreement dated March 1, 2002 between the Trust and Larry E. Finger (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-07533) (the 2002 Form 10-K ) and incorporated herein by reference)
- 10.17 \* Combined Incentive and Non-Qualified Stock Option Agreement dated February 28, 2002 between the Trust and Larry E. Finger (previously filed as a portion of Exhibit 10 to the 2002 Form 10-K and incorporated herein by reference)
- 10.18 \* Performance Share Award Agreement between the Trust and Donald C. Wood dated February 28, 2002 (previously filed as a portion of Exhibit 10 to the 2002 Form 10-K and incorporated herein by reference)
- 10.19 \* Performance Share Award Agreement between the Trust and Jeffrey S. Berkes dated February 28, 2002 (previously filed as a portion of Exhibit 10 to the 2002 Form 10-K and incorporated herein by reference)
- 10.20 \* Amendment to Stock Option Agreement dated August 15, 2002 between the Trust and Dawn M. Becker (previously filed as a portion of Exhibit 10 to the 2002 Form 10-K and incorporated herein by reference)

| Exhibit<br>No. | Description  |
|----------------|--|
| 10.21          | * Amendment to Stock Option Agreement dated August 15, 2002 between Federal Realty Investment Trust and Jeffrey S. Berkes (previously filed as Exhibit 10.31 to the 2002 Form 10-K and incorporated herein by reference) |
| 10.22          | 2001 Long-Term Incentive Plan (previously filed as Exhibit 99.1 to the Trust's S-8 Registration Number 333-60364 filed on May 7, 2001 and incorporated herein by reference)  |
| 12.1           | Statement Regarding Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends (filed herewith)   |
| 21.1           | Subsidiaries of the Trust (previously filed as Exhibit 21.1 to the 2004 Form 10-K and incorporated herein by reference)  |
| 23.1           | Consent of Grant Thornton LLP (filed herewith)   |
| 25.1           | Power of Attorney (included on signature page to the 2004 Form 10-K)   |
| 31.1           | Rule 13a-14(a) Certification of Chief Executive Officer (filed herewith)   |
| 31.2           | Rule 13a-14(a) Certification of Chief Financial Officer (filed herewith)   |
| 32.1           | Section 1350 Certification of Chief Executive Officer (filed herewith)   |
| 32.2           | Section 1350 Certification of Chief Financial Officer (filed herewith)   |
|                | (b) <i>Reports on Form 8-K</i>   |

Not applicable

(c) *Exhibits*

See Item 15(a)(3) above

\* Management contract or compensatory plan to be filed under item 15(c) of Form 10-K.



**SIGNATURES**

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 thereunto duly authorized this 26th day of March, 2004.

Federal Realty Investment Trust

By: /s/ DONALD C. WOOD

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**Donald C. Wood**  
**Chief Executive Officer**

-9-