PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-K/A
April 17, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2008

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 No. 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

Pennsylvania	**23-6216339**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
The Bellevue 200 South Broad Street Philadelphia, Pennsylvania	**19102**
(Address of principal executive offices)	**(Zip Code)**

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Shares of Beneficial Interest, par value $1.00 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 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 x 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 the 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value, as of June 30, 2008, of the shares of beneficial interest, par value $1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately $832 million. (Aggregate market value is estimated solely for the purposes of this report and shall not be construed as an admission for the purposes of determining affiliate status.)

On February 26, 2009, 39,393,617 shares of beneficial interest, par value $1.00 per share, of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement for its 2009 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

EXPLANATORY NOTE

This Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, initially filed on March 2, 2009, is being filed for the sole purpose of correcting a typographical error on our consolidated statements of income. The amount that appears in the caption entitled (Loss) income before equity in income of partnerships, gains on sales of real estate, minority interest and discontinued operations for the year ended December 31, 2008 was incorrectly reported as $(46,998). The correct amount is $(17,720). Amounts referenced in this explanatory note are in thousands of dollars.

Except as described above, no other changes are being made to the Annual Report. Accordingly, this Form 10-K/A should be read in conjunction with the Form 10-K and our other filings made with the Securities and Exchange Commission. This Form 10-K/A does not reflect events occurring after the March 2, 2009 filing of our Annual Report or modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the change discussed above. In order to comply with certain technical requirements of the Securities and Exchange Commission s rules in connection with the filing of this amendment on Form 10-K/A, we are including in this amendment the complete text of Part II, Item 8, *Financial Statements and Supplementary Data*, and Part IV, Item 15, *Exhibits and Financial Statement Schedules,* as well as a consent of our independent registered public accountants with respect to this filing (Exhibit 23). We are also including in this amendment updated certifications of our principal executive and principal financial officers (Exhibits 31.1, 31.2, 32.1 and 32.2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity and comprehensive income and cash flows for the years ended December 31, 2008, 2007 and 2006, and the notes thereto, our report on internal control over financial reporting, the reports of our independent registered public accounting firm thereon, our summary of unaudited quarterly financial information for the years ended December 31, 2008 and 2007, and the financial statement schedule begin on page F-1 of this report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are included in this report:

(1) Financial Statements

(2) Financial Statement Schedule

All other schedules are omitted because they are not applicable, not required or because the required information is reported in the consolidated financial statement or notes thereto.

(3) Exhibits

The Exhibit Index filed with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed on March 2, 2009, is incorporated by reference into this Item 15(a)(3). Also incorporated by reference into this Item 15(a)(3) is the Exhibit Index attached to this Amendment No. 1 on Form 10-K/A for those exhibits filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: April 17, 2009

By: */s/ Edward A. Glickman*
Edward A. Glickman
President and Chief Operating Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ronald Rubin and Edward A. Glickman, or either of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and either of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, or either of them or any substitute therefore, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	*Capacity*	*Date*
* Ronald Rubin	Chairman and Chief Executive Officer and Trustee (principal executive officer)	
* George F. Rubin	Vice Chairman and Trustee	
/s/ Edward A. Glickman Edward A. Glickman	President and Chief Operating Officer and Trustee	April 17, 2009
* Joseph F. Coradino	Executive Vice President and Trustee	
/s/ Robert F. McCadden Robert F. McCadden	Executive Vice President and Chief Financial Officer (principal financial officer)	April 17, 2009
/s/ Jonathen Bell Jonathen Bell	Senior Vice President Chief Accounting Officer (principal accounting officer)	April 17, 2009
* Stephen B. Cohen	Trustee	

* M. Walter D Alessio	Trustee
* Rosemarie B. Greco	Trustee
* Lee H. Javitch	Trustee
* Leonard I. Korman	Trustee
* Ira M. Lubert	Trustee
* Donald F. Mazziotti	Trustee
* Mark E. Pasquerilla	Trustee
* John J. Roberts	Trustee

*By: /s/ Edward A Glickman
Edward A. Glickman

Attorney-in-fact

April 17, 2009

Management s Report on Internal Control Over Financial Reporting

Management of Pennsylvania Real Estate Investment Trust (us or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in the rules of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Trustees, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company s transactions and the dispositions of assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company s management and trustees; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company s annual consolidated financial statements, management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included an evaluation of the design of the Company s internal control over financial reporting and testing of the operational effectiveness of those controls. Based on this evaluation, we have concluded that, as of December 31, 2008, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our independent registered public accounting firm, KPMG LLP, independently assessed the effectiveness of the Company s internal control over financial reporting. KPMG has issued a report concurring with management s assessment, which is included on page F-3 in this report.

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders

Pennsylvania Real Estate Investment Trust:

We have audited the accompanying consolidated balance sheets of Pennsylvania Real Estate Investment Trust (a Pennsylvania business trust) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 Pennsylvania Real Estate Investment Trust and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pennsylvania Real Estate Investment Trust s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania

February 27, 2009

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders

Pennsylvania Real Estate Investment Trust:

We have audited Pennsylvania Real Estate Investment Trust s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pennsylvania Real Estate Investment Trust s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and trustees of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pennsylvania Real Estate Investment Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pennsylvania Real Estate Investment Trust and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania

February 27, 2009

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share and per share amounts)	**December 31, 2008**	**December 31, 2007**
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$ 3,291,103	$ 3,074,562
Construction in progress	411,479	287,116
Land held for development	5,466	5,616
Total investments in real estate	3,708,048	3,367,294
Accumulated depreciation	(516,832)	(401,502)
Net investments in real estate	3,191,216	2,965,792
INVESTMENTS IN PARTNERSHIPS, at equity	36,164	36,424
OTHER ASSETS:		
Cash and cash equivalents	9,786	27,925
Tenant and other receivables (net of allowance for doubtful accounts of $16,895 and $11,424 at December 31, 2008 and 2007, respectively)	57,970	49,094
Intangible assets (net of accumulated amortization of $169,189 and $137,809 at December 31, 2008 and 2007, respectively)	68,296	104,136
Deferred costs and other assets	80,845	80,703
Total assets	$ 3,444,277	$ 3,264,074
LIABILITIES:		
Mortgage notes payable	$ 1,756,270	$ 1,643,122
Debt premium on mortgage notes payable	4,026	13,820
Exchangeable notes	241,500	287,500
Credit Facility	400,000	330,000
Senior unsecured term loan	170,000	
Tenants deposits and deferred rent	13,112	16,213
Distributions in excess of partnership investments	48,788	49,166
Accrued expenses and other liabilities	123,739	111,378
Total liabilities	2,757,435	2,451,199
MINORITY INTEREST (Redemption value $16,397 and $66,560 at December 31, 2008 and December 31, 2007, respectively)	52,326	55,256
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Shares of beneficial interest, $1.00 par value per share; 100,000,000 shares authorized; issued and outstanding 39,468,523 shares at December 31, 2008 and 39,134,109 shares at December 31, 2007	39,469	39,134
Capital contributed in excess of par	834,026	818,966
Accumulated other comprehensive loss	(45,341)	(6,968)
Distributions in excess of net income	(193,638)	(93,513)
Total shareholders equity	634,516	757,619
Total liabilities, minority interest and shareholders equity	$ 3,444,277	$ 3,264,074

See accompanying notes to consolidated financial statements.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share amounts)	For the Year Ended December 31, 2008	2007	2006
REVENUE:			
Real estate revenue:			
Base rent	$ 300,287	$ 293,110	$ 289,286
Expense reimbursements	139,636	136,360	131,846
Percentage rent	7,157	9,067	9,942
Lease termination revenue	4,114	1,589	2,789
Other real estate revenue	18,387	19,470	21,015
Total real estate revenue	469,581	459,596	454,878
Management company revenue	3,730	4,419	2,422
Interest and other revenue	769	2,557	2,008
Total revenue	474,080	466,572	459,308
EXPENSES:			
Property operating expenses:			
CAM and real estate tax	(135,293)	(129,338)	(123,503)
Utilities	(24,872)	(24,998)	(23,520)
Other property expenses	(27,787)	(26,083)	(28,684)
Total property operating expenses	(187,952)	(180,419)	(175,707)
Depreciation and amortization	(151,612)	(132,184)	(123,302)
Other expenses:			
General and administrative expenses	(40,324)	(41,415)	(38,193)
Executive separation			(3,985)
Impairment of assets	(27,592)		
Abandoned project costs, income taxes and other expenses	(1,534)	(1,944)	(733)
Total other expenses	(69,450)	(43,359)	(42,911)
Interest expense, net	(112,064)	(98,860)	(96,382)
Gain on extinguishment of debt	29,278		
Total expenses	(491,800)	(454,822)	(438,302)
(Loss) income before equity in income of partnerships, gains on sales of real estate, minority interest and discontinued operations	(17,720)	11,750	21,006
Equity in income of partnerships	7,053	4,637	5,595
Gains on sales of non-operating real estate		1,731	5,495
Gains on sales of interests in real estate		579	
(Loss) income before minority interest and discontinued operations	(10,667)	18,697	32,096
Minority interest	287	(1,414)	(3,367)
(Loss) income from continuing operations	(10,380)	17,283	28,729
Discontinued operations:			
Operating results from discontinued operations		(130)	(2,201)
Gains on sales of discontinued operations		6,699	1,414
Minority interest		(691)	79
Income (loss) from discontinued operations		5,878	(708)

Net (loss) income	(10,380)	23,161	28,021
Redemption of preferred shares		13,347	
Dividends on preferred shares		(7,941)	(13,613)
Net (loss allocable) income available to common shareholders	$ (10,380)	$ 28,567	$ 14,408

See accompanying notes to consolidated financial statements.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME (continued)

EARNINGS PER SHARE

(in thousands, except per share amounts)	**For the Year Ended December 31, 2008**	**2007**	**2006**
(Loss) income from continuing operations	$ (10,380)	$ 17,283	$ 28,729
Redemption of preferred shares		13,347	
Dividends on preferred shares		(7,941)	(13,613)
(Loss) income from continuing operations available to common shareholders	(10,380)	22,689	15,116
Dividends on unvested restricted shares	(1,222)	(1,088)	(1,043)
(Loss) income from continuing operations used to calculate earnings per share basic	(11,602)	21,601	14,073
Minority interest in properties continuing operations			155
(Loss) income from continuing operations used to calculate earnings per share diluted	$ (11,602)	$ 21,601	$ 14,228
Income (loss) from discontinued operations used to calculate earnings per share basic and diluted	$	$ 5,878	$ (708)
Basic (loss) earnings per share:			
(Loss) income from continuing operations	$ (0.30)	$ 0.57	$ 0.39
Income (loss) from discontinued operations		0.16	(0.02)
	$ (0.30)	$ 0.73	$ 0.37
Diluted (loss) earnings per share:			
(Loss) income from continuing operations[1]	$ (0.30)	$ 0.57	$ 0.39
Income (loss) from discontinued operations		0.16	(0.02)
	$ (0.30)	$ 0.73	$ 0.37
Weighted average shares outstanding basic	38,807	37,577	36,256
Effect of dilutive common share equivalents[1]		325	599
Weighted average shares outstanding diluted	38,807	37,902	36,855

(1) For the year ended December 31, 2008, there is a net loss allocable to common shareholders from continuing operations, so the effect of common share equivalents of 14 for the year ended December 31, 2008 is excluded from the calculation of diluted loss per share.

See accompanying notes to consolidated financial statements

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED

DECEMBER 31, 2008, 2007 AND 2006

(in thousands of dollars, except per share amounts)	Shares of Beneficial Interest $1.00 Par	Preferred Shares $.01 Par	Capital Contributed in Excess of Par	Accumulated Other Comprehensive Income (Loss)	(Distributions in Excess of Net Income) Retained Earnings	Total Shareholders Equity
Balance, January 1, 2006	$ 36,521	$ 25	$ 899,439	$ 4,377	$ 36,514	$ 976,876
Comprehensive income:						
Net income					28,021	28,021
Unrealized gain on derivatives				3,480		3,480
Other comprehensive income				36		36
Total comprehensive income						31,537
Shares issued upon exercise of options, net of retirements	57		1,227			1,284
Shares issued upon redemption of Operating Partnership units	193		7,991			8,184
Shares issued under distribution reinvestment and share purchase plan	115		4,418			4,533
Shares issued under employee share purchase plans	18		727			745
Shares issued under equity incentive plan, net of retirements	43		(2,340)			(2,297)
Amortization of deferred compensation			5,860			5,860
Distributions paid to common shareholders ($2.28 per share)					(83,809)	(83,809)
Distributions paid to preferred shareholders ($5.50 per share)					(13,613)	(13,613)
Balance, December 31, 2006	36,947	25	917,322	7,893	(32,887)	929,300
Comprehensive income:						
Net income					23,161	23,161
Unrealized loss on derivatives				(14,644)		(14,644)
Other comprehensive loss				(217)		(217)
Total comprehensive income						8,300
Shares issued upon exercise of options, net of retirements	76		145			221
Shares issued upon redemption of Operating Partnership units	2,053		51,231			53,284
Shares issued under distribution reinvestment and share purchase plan	98		3,785			3,883
Shares issued under employee share purchase plans	20		742			762
Shares issued under equity incentive plan, net of retirements	93		(2,183)			(2,090)
Repurchase of common shares	(153)		(3,291)		(2,000)	(5,444)
Capped calls			(12,578)			(12,578)
Preferred share redemption		(25)	(143,278)		13,347	(129,956)
Amortization of deferred compensation			7,071			7,071
Distributions paid to common shareholders ($2.28 per share)					(86,475)	(86,475)
Distributions paid to preferred shareholders ($3.50 per share)					(8,659)	(8,659)
Balance, December 31, 2007	39,134		818,966	(6,968)	(93,513)	757,619
Comprehensive income:						
Net loss					(10,380)	(10,380)
Unrealized loss on derivatives				(38,415)		(38,415)
Other comprehensive income				42		42
Total comprehensive loss						(48,753)
Shares issued upon exercise of options, net of retirements	26		584			610
Shares issued upon redemption of Operating Partnership units	42		973			1,015
Shares issued under distribution reinvestment and share purchase plan	70		1,259			1,329

Shares issued under employee share purchase plans	45		684			729
Shares issued under equity incentive plan, net of retirements	176		(204)			(28)
Repurchase of common shares	(24)		(600)			(624)
Adjustment to shareholders equity for Outperformance Plan (note 9)			2,911			2,911
Amortization of deferred compensation			9,453			9,453
Distributions paid to common shareholders ($2.28 per share)					(89,745)	(89,745)
Balance, December 31, 2008	$ 39,469	$	$ 834,026	$ (45,341)	$ (193,638)	$ 634,516

See accompanying notes to consolidated financial statements

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
(in thousands of dollars)	**2008**	**2007**	**2006**
Cash flows from operating activities:			
Net (loss) income	$ (10,380)	$ 23,161	$ 28,021
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	117,988	100,020	92,329
Amortization	28,915	22,278	22,981
Straight-line rent adjustments	(2,338)	(2,439)	(2,905)
Provision for doubtful accounts	4,666	2,414	3,182
Amortization of deferred compensation	8,634	7,071	5,860
Amortization of Outperformance Program	819	819	1,160
Minority interest	(287)	2,105	3,288
Net gain on forward starting swap activities	(2,002)		
Gain on extinguishment of debt	(29,278)		
Impairment of assets	27,592		
Gains on sales of interests in real estate		(9,009)	(6,909)
Change in assets and liabilities:			
Net change in other assets	(8,095)	(4,448)	(3,118)
Net change in other liabilities	(11,271)	7,514	20,516
Net cash provided by operating activities	124,963	149,486	164,405
Cash flows from investing activities:			
Investments in real estate acquisitions, net of cash acquired	(11,914)	(11,657)	(60,858)
Investments in real estate improvements	(25,027)	(32,524)	(35,521)
Additions to construction in progress	(307,411)	(213,761)	(154,155)
Investments in partnerships	(4,006)	(13,654)	(3,408)
Decrease (increase) in cash escrows	7,181	1,130	(2,755)
Capitalized leasing costs	(5,314)	(4,830)	(4,613)
Additions to leasehold improvements	(762)	(945)	(619)
Increase in notes receivable from tenants	(10,000)		
Cash distributions from partnerships in excess of equity in income	3,888	1,578	56,423
Cash proceeds from sales of real estate investments	126	32,286	17,762
Net cash used in investing activities	(353,239)	(242,377)	(187,744)
Cash flows from financing activities:			
Principal installments on mortgage notes payable	(21,603)	(23,123)	(22,771)
Proceeds from mortgage notes payable	633,265	150,000	246,500
Repayment of mortgage notes payable	(506,514)	(56,663)	
Repayment of corporate notes payable		(1,148)	(94,400)
Proceeds from sale of Exchangeable Notes		281,031	
Repurchase of Exchangeable Notes	(15,912)		
Net borrowing (repayment of) from Credit Facility	70,000	(2,000)	(10,500)
Borrowing from senior unsecured Term Loan	170,000		
Net (proceeds) payment from settlement of forward-starting interest rate swap agreements	(16,503)	4,069	
Payment of deferred financing costs	(10,487)	(4,201)	(1,498)
Purchase of capped calls		(12,578)	
Shares of beneficial interest issued	3,217	19,157	8,055
Shares of beneficial interest repurchased, other	(624)	(6,983)	(2,545)
Shares of beneficial interest repurchased under share repurchase program		(5,444)	
Operating partnership units purchased or redeemed		(4,438)	(352)
Redemption of preferred shares		(129,955)	

Dividends paid to common shareholders	(89,745)	(86,475)	(83,809)
Dividends paid to preferred shareholders		(8,659)	(13,613)
Distributions paid to Operating Partnership Unit holders and minority partners	(4,957)	(7,582)	(8,768)
Net cash provided by financing activities	210,137	105,008	16,299
Net change in cash and cash equivalents	(18,139)	12,117	(7,040)

(in thousands of dollars)	For the Year Ended December 31, 2008	2007	2006
Cash and cash equivalents, beginning of year	27,925	15,808	22,848
Cash and cash equivalents, end of year	$ 9,786	$ 27,925	$ 15,808

See accompanying notes to consolidated financial statements.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2008, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls and strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of December 31, 2008, the Company s portfolio consisted of a total of 56 properties in 13 states, including 38 shopping malls, 14 strip and power centers and four properties under development. The ground-up development portion of the Company s portfolio contained four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

The Company holds its interest in its portfolio of properties through its operating partnership, PREIT Associates, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of December 31, 2008, the Company held a 94.7% interest in the Operating Partnership, and consolidates it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner s units of limited partnership interest in the Operating Partnership (OP Units) for cash or, at the election of the Company, the Company may acquire such OP Units for common shares of the Company on a one-for-one basis, in some cases beginning one year following the respective issue date of the OP Units and in other cases immediately. In the event of the redemption of all of the outstanding OP Units held by limited partners for cash, the total amount that would have been distributed as of December 31, 2008 would have been $16.4 million, which is calculated using the Company s December 31, 2008 share price on the New York Stock Exchange multiplied by the number of outstanding OP Units held by limited partners.

The Company provides its management, leasing and real estate development services through two companies: PREIT Services, LLC (PREIT Services), which generally develops and manages properties that the Company consolidates for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties that the Company does not consolidate for financial reporting purposes, including properties owned by partnerships in which the Company owns an interest and properties that are owned by third parties in which the Company does not have an interest. PREIT Services and PRI are consolidated. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer an expanded menu of services to tenants without jeopardizing the Company s continuing qualification as a REIT under federal tax law.

Consolidation

The Company consolidates its accounts and the accounts of the Operating Partnership and other controlled subsidiaries and reflects the remaining interest of such entities as minority interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

Risks and Uncertainties

The Company is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. The most significant external risks facing the Company today stem from the current downturn in the overall economy and challenging conditions in the capital and credit markets.

Substantially all of the Company s revenue is generated from leases with retail tenants. The reduction in consumer spending as a result of declining consumer confidence and increasing unemployment has affected, and may continue to negatively affect, the operations of many retail companies. Beginning in the second half of 2008, the number of retail bankruptcies and store closings has increased. Retailers also have reduced the number of store openings planned for 2009 due to these economic conditions. In the near term, these conditions may cause the Company s occupancy rates, revenue and net income to decline from current levels.

The Company uses a substantial amount of debt to finance its business. The Company has relied on new borrowings to fund its redevelopment and development projects and for working capital purposes. The Company estimates that it will require approximately up to $150.0 million during 2009 to fund its ongoing redevelopment and development projects (unaudited). In addition, $58.5 million of the Company s debt matures during 2009. An additional $123.7 million, which represents the Company s share of debt at joint venture partnership properties, matures during 2009; however, $111.2 million of the debt agreements contain options to extend the respective maturity dates for a period of one year provided that there is no event of default with respect to such loans and certain other conditions are met. The Company expects to satisfy its 2009 capital requirements and debt maturities through borrowings under its Credit Facility, refinancing certain mortgage loans and by additional borrowings secured by existing properties. However, given the continued weakness of the credit markets, there is no assurance that the Company will be able to refinance its existing debt or obtain the additional capital necessary to satisfy its 2009 obligations on satisfactory terms, or at all.

As of December 31, 2008, the Company had borrowed $400.0 million under its $500.0 million Credit Facility that expires in March 2010. Financial covenants under the Credit Facility require that the Company s leverage ratio, as defined in the Credit Facility, be less than 65%, provided that this leverage ratio can be exceeded for one period of two consecutive quarters, but may not exceed 70%, and that the Company meet certain other debt yield, interest coverage and fixed charge ratios (see note 4). Compliance with each of these ratios is dependent upon the Company s financial performance. The leverage ratio is based, in part, on applying a capitalization rate to the Company s net operating income. Based on this calculation method, decreases in net operating income would result in an increased leverage ratio, even if overall debt levels remain constant. To avoid breaching the leverage ratio or other covenants, the Company might be required to curtail its capital spending, sell assets, further reduce its dividend, reduce debt levels or raise additional equity capital.

Partnership Investments

The Company accounts for its investments in partnerships that it does not control using the equity method of accounting. These investments, each of which represent a 40% to 50% noncontrolling ownership interest at December 31, 2008, are recorded initially at the Company s cost and subsequently adjusted for the Company s share of net equity in income and cash contributions and distributions. The Company does not control any of these equity method investees for the following reasons:

Except for two properties that the Company co-manages with its partner, the other entities are managed on a day-to-day basis by one of the Company s other partners as the managing general partner in each of the respective partnerships. In the case of the co-managed properties, all decisions in the ordinary course of business are made jointly.

The managing general partner is responsible for establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.

All major decisions of each partnership, such as the sale, refinancing, expansion or rehabilitation of the property, require the approval of all partners.

Voting rights and the sharing of profits and losses are in proportion to the ownership percentages of each partner.

Statements of Cash Flows

The Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash and cash equivalents totaled $9.8 million and $27.9 million, respectively, and included tenant security deposits of $4.5 million and $4.4 million, respectively. Cash paid for interest, including interest related to discontinued operations, was $117.5 million, $109.5 million and $109.0 million for the years ended December 31, 2008, 2007 and 2006, respectively, net of amounts capitalized of $16.0 million, $16.3 million and $9.6 million, respectively.

Significant Non-Cash Transactions

On June 6, 2007, the Company issued 1,580,211 common shares of beneficial interest in exchange for a like number of OP Units in a transaction with an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

In December 2006, the Company issued 341,297 OP Units valued at $13.4 million in connection with the purchase of the remaining interest in two partnerships that own or ground lease 12 malls related to the put-call arrangement established in the Crown American Realty Trust merger in 2003 (see note 11).

Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

The Company s management makes complex or subjective assumptions and judgments in applying its critical accounting policies. In making these judgments and assumptions, management considers, among other factors:

- events and changes in property, market and economic conditions;
- estimated future cash flows from property operations; and
- the risk of loss on specific accounts or amounts.

The estimates and assumptions made by the Company s management in applying its critical accounting policies have not changed materially over time, and none of these estimates or assumptions have proven to be materially incorrect or resulted in the Company recording any significant adjustments relating to prior periods. The Company will continue to monitor the key factors underlying its estimates and judgments, but no change is currently expected.

Revenue Recognition

The Company derives over 95% of its revenue from tenant rent and other tenant-related activities. Tenant rent includes base rent, percentage rent, expense reimbursements (such as common area maintenance, real estate taxes and utilities), amortization of above-market and below-market intangibles (as described below under Intangible Assets) and straight-line rent. The Company records base rent on a straight-line basis, which means that the monthly base rent income according to the terms of the Company s leases with its tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. When tenants vacate prior to the end of their lease, the Company accelerates amortization of any related unamortized straight-line rent balances, and unamortized above-market and below-market intangible balances are amortized as a decrease or increase to real estate revenue, respectively. The straight-line rent adjustment increased revenue by approximately $2.3 million in 2008, $2.4 million in 2007 and $2.9 million in 2006. The straight-line receivable balances included in tenant and other receivables on the accompanying balance sheet as of December 31, 2008 and December 31, 2007 were $24.2 million and $21.8 million, respectively.

Percentage rent represents rental income that the tenant pays based on a percentage of its sales, either as a percentage of their total sales or as a percentage of sales over a certain threshold. In the latter case, the Company does not record percentage rent until the sales threshold has been reached. Revenue for rent received from tenants prior to their due dates is deferred until the period to which the rent applies.

In addition to base rent, certain lease agreements contain provisions that require tenants to reimburse a pro rata share of certain common area maintenance costs and real estate taxes. Tenants generally make expense reimbursement payments monthly based on a budgeted amount determined at the beginning of the year. During the year, the Company s income increases or decreases based on actual expense levels and changes in other factors that influence the reimbursement amounts, such as occupancy levels. As of December 31, 2008 and 2007, the Company s accounts receivable included accrued income of $11.7 million and $10.9 million, respectively, because actual reimbursable expense amounts able to be billed to tenants under applicable contracts exceeded amounts actually billed. Subsequent to the end of the year, the Company prepares a reconciliation of the actual amounts due from tenants. The difference between the actual amount due and the amounts paid by the tenant throughout the year is billed or credited to the tenant, depending on whether the tenant paid too little or too much during the year.

Payments made to tenants as inducements to enter into a lease are treated as deferred costs that are amortized as a reduction of rental revenue over the term of the related lease.

No single tenant represented 10% or more of the Company s rental revenue in any period presented.

Lease termination fee income is recognized in the period when a termination agreement is signed, collectibility is assured and the Company is no longer obligated to provide space to the tenant. In the event that a tenant is in bankruptcy when the termination agreement is signed, termination fee income is deferred and recognized when it is received.

The Company also generates revenue from the provision of management services to third parties, including property management, brokerage, leasing and development. Management fees generally are a percentage of managed property revenue or cash receipts. Leasing fees are earned upon the consummation of new leases. Development fees are earned over the time period of the development activity and are recognized on the percentage of completion method. These activities are collectively included in management company revenue in the consolidated statements of income.

Fair Value

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The Company utilizes the fair value hierarchy in its accounting for derivatives and in its impairment reviews of real estate assets and goodwill.

Asset Impairment

Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management s estimate of the aggregate future cash flows, less estimated capital expenditures to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In addition, these estimates may consider a probability weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or when a range of possible values is estimated.

The determination of undiscounted cash flows requires significant estimates by management, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated action to be taken with respect to the property could impact the determination of whether an impairment exists and whether the effects could materially impact the Company s net income. To the extent estimated undiscounted cash flows are less than the carrying value of the property, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

Assessment of the recoverability by the Company of certain lease related costs must be made when the Company has a reason to believe that the tenant might not be able to perform under the terms of the lease as originally expected. This requires the Company to make estimates as to the recoverability of such costs.

An other than temporary impairment of an investment in an unconsolidated joint venture is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value, including the results of discontinued cash flow and other valuation techniques. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

Real Estate

Land, buildings, fixtures and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to operations as incurred. Renovations or replacements, which improve or extend the life of an asset, are capitalized and depreciated over their estimated useful lives.

For financial reporting purposes, properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	30-50 years
Land improvements	15 years
Furniture/fixtures	3-10 years
Tenant improvements	Lease term

The Company is required to make subjective assessments as to the useful lives of its real estate assets for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those assets based on various factors, including industry standards, historical experience and the condition of the asset at the time of acquisition. These assessments have a direct impact on the Company s net income. If the Company were to determine that a longer expected useful life was appropriate for a particular asset, it would be depreciated over more years, and, other things being equal, result in less annual depreciation expense and higher annual net income.

Gains from sales of real estate properties and interests in partnerships generally are recognized using the full accrual method in accordance with the provisions of Statement of Financial Accounting Standards No. 66, Accounting for Real Estate Sales, provided that various criteria are met relating to the terms of sale and any subsequent involvement by the Company with the properties sold.

Intangible Assets

The Company accounts for its property acquisitions under the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141). Pursuant to SFAS No. 141, the purchase price of a property is allocated to the property s assets based on management s estimates of their fair value. The determination of the fair value of intangible assets requires significant estimates by management and considers many factors, including the Company s expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in such assumptions can have a significant impact on the magnitude of the intangible assets that the Company records.

SFAS No. 141 provides guidance on allocating a portion of the purchase price of a property to intangible assets. The Company s methodology for this allocation includes estimating an as-if vacant fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the as-if vacant fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

The value of in-place leases is estimated based on the value associated with the costs avoided in originating leases comparable to the acquired in-place leases, as well as the value associated with lost rental revenue during the assumed lease-up period. The value of in-place leases is amortized as real estate amortization over the remaining lease term.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimates of fair market lease rates for the comparable in-place leases, based on factors such as historical experience, recently executed transactions and specific property issues, measured over a period equal to the remaining non-cancelable term of the lease. The value of above-market lease values is amortized as a reduction of rental income over the remaining terms of the respective leases. The value of below-market lease values is amortized as an increase to rental income over the remaining terms of the respective leases, including any below-market optional renewal periods.

The Company allocates purchase price to customer relationship intangibles based on management s assessment of the value of such relationships.

The following table presents the Company s intangible assets and liabilities, net of accumulated amortization, as of December 31, 2008 and 2007:

(in thousands of dollars)	**As of December 31, 2008**	**As of December 31, 2007**
Value of in-place lease intangibles	$ 55,745	$ 84,140
Above-market lease intangibles	5,395	8,192
Subtotal	61,140	92,332
Goodwill (see below)	7,156	11,804
Total intangible assets	$ 68,296	$ 104,136
Below-market lease intangibles	$ (7,996)	$ (10,131)

Amortization of in-place lease intangibles was $29.1 million, $29.0 million and $29.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Amortization of above-market and below-market lease intangibles decreased revenue by $0.6 million, $0.1 million and $0.6 million in 2008, 2007 and 2006, respectively.

In the normal course of business, the Company s intangible assets will amortize in the next five years and thereafter as follows:

(in thousands of dollars) **For the Year Ended December 31,**	**In-Place Lease Intangibles**	**Above/(Below) Market Leases**
2009	$ 27,005	$ 191
2010	22,383	126
2011	5,130	206
2012	1,191	(175)
2013	36	(410)
2014 and thereafter		(2,539)
Total	$ 55,745	$ (2,601)

Goodwill

Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No.142), requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. The Company conducts an annual review of its goodwill balances for impairment to determine whether an adjustment to the carrying value of goodwill is required. The Company determined the fair value of its properties and the goodwill that is associated with the properties by applying a capitalization rate to the Company s best estimate of projected income at those properties. The Company also considers factors such as property sales performance, market position and current and future operating results.

In connection with the Company s 2008 annual goodwill impairment test, the Company determined that the carrying amount of the goodwill was impaired, resulting in a $4.6 million impairment loss. The Company s intangible assets on the accompanying consolidated balance sheets at December 31, 2008 and 2007 include $7.2 million and $11.8 million, respectively, (net of $0.6 million and $1.1 million of amortization expense recognized prior to January 1, 2002) of goodwill recognized in connection with the acquisition of The Rubin Organization in 1997.

Changes in the carrying amount of goodwill for the three years ended December 31, 2008 were as follows:

(in thousands of dollars)	
Balance, January 1, 2006	$ 11,829
Goodwill divested	(25)
Balance, December 31, 2006	11,804
Goodwill divested	
Balance, December 31, 2007	11,804
Impairment	(4,648)
Balance, December 31, 2008	$ 7,156

Assets Held for Sale and Discontinued Operations

The determination to classify an asset as held for sale requires significant estimates by the Company about the property and the expected market for the property, which are based on factors including recent sales of comparable properties, recent expressions of interest in the property, financial metrics of the property and the condition of the property. The Company must also determine if it will be possible under those market conditions to sell the property for an acceptable price within one year. When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. The Company generally considers operating properties to be held for sale when they meet the criteria in accordance with Statement of Financial Accounting Standards No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, (SFAS No. 144), which includes factors such as whether the sale transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable within one year. If, in management s opinion, the net sales price of the asset that has been identified as held for sale is less than the net book value of the asset, the asset is written down to fair value less the cost to sell. Assets and liabilities related to assets classified as held for sale are presented separately in the consolidated balance sheet.

Assuming no significant continuing involvement, a sold operating real estate property is considered a discontinued operation. In addition, operating properties classified as held for sale are considered discontinued operations. Operating properties classified as discontinued operations were reclassified as such in the accompanying consolidated statement of income for each period presented. Interest expense that is specifically identifiable to the property is used in the computation of interest expense attributable to discontinued operations. See note 2 for a description of the properties included in discontinued operations. Land parcels and other portions of operating properties, non-operating real estate and investment in partnerships are excluded from discontinued operations treatment.

Capitalization of Costs

Costs incurred in relation to development and redevelopment projects for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. Capitalized costs, as well as tenant inducement amounts and internal and external commissions, are recorded in construction in progress. The Company capitalizes a portion of development department employees compensation and benefits related to time spent involved in development and redevelopment projects.

The Company capitalizes payments made to obtain options to acquire real property. Other related costs that are incurred before acquisition that are expected to have ongoing value to the project are capitalized if the acquisition of the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is probable that the property will not be acquired. The Company recorded abandoned project costs of $1.3 million, $1.5 million and $0.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition to the amount noted in the asset impairment discussion in note 2, the Company capitalizes salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases with third-party tenants.

The following table summarizes the Company s capitalized salaries and benefits, real estate taxes and interest for the years ended December 31, 2008, 2007 and 2006:

	For the Year Ended December 31,		
(in thousands of dollars)	**2008**	**2007**	**2006**
Development/Redevelopment:			
Salaries and benefits	$ 3,276	$ 2,349	$ 2,265
Real estate taxes	$ 2,380	$ 2,236	$ 1,398
Interest	$ 15,968	$ 16,259	$ 9,640
Leasing:			
Salaries and benefits	$ 5,314	$ 4,830	$ 4,613

Tenant Receivables

The Company makes estimates of the collectibility of its tenant receivables related to tenant rent including base rent, straight-line rent, expense reimbursements and other revenue or income. The Company specifically analyzes accounts receivable, including straight-line rent receivable, historical bad debts, customer creditworthiness and current economic and industry trends when evaluating the adequacy of the allowance for doubtful accounts. The receivables analysis places particular emphasis on past-due accounts and considers the nature and age of the receivables, the payment history and financial condition of the payor, the basis for any disputes or negotiations with the payor, and other information that could affect collectibility. In addition, with respect to tenants in bankruptcy, the Company makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the time required to reach an ultimate resolution of these claims can exceed one year. These estimates have a direct affect on the Company s net income because higher bad debt expense results in less net income, other things being equal. For straight-line rent, the collectibility analysis considers the probability of collection of the unbilled deferred rent receivable given the Company s experience regarding such amounts.

Income Taxes

The Company has elected to qualify as a real estate investment trust under Sections 856-860 of the Internal Revenue Code of 1986, as amended, and intends to remain so qualified.

Earnings and profits, which determine the taxability of distributions to shareholders, will differ from net income reported for financial reporting purposes due to differences in cost basis, differences in the estimated useful lives used to compute depreciation and differences between the allocation of the Company s net income and loss for financial reporting purposes and for tax reporting purposes.

The Company is subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the excess, if any, of 85% of the Company s ordinary income plus 95% of the Company s capital gain net income for the year plus 100% of any prior year shortfall over cash distributions during the year, as defined by the Internal Revenue Code. The Company has, in the past, distributed a substantial portion of its taxable income in the subsequent fiscal year and might also follow this policy in the future.

No provision for excise tax was made for the years ended December 31, 2008, 2007, and 2006, as no excise tax was due in those years.

The per share distributions paid to shareholders had the following components for the years ended December 31, 2008, 2007, and 2006:

	For the Year Ended December 31,		
	2008	2007	2006
Ordinary income	$ 2.25	$ 2.11	$ 1.93
Capital gains			0.04
Return of capital	0.03	0.17	0.31
	$ 2.28	$ 2.28	$ 2.28

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more likely than not recognition threshold, the position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The adoption of FIN 48 had no material effect on the Company s financial statements.

PRI is subject to federal, state and local income taxes. The Company had no provision or benefit for federal or state income taxes in the years ended December 31, 2008, 2007 and 2006. The Company had net deferred tax assets of $5.3 million for each of the years ended December 31, 2008 and 2007. The deferred tax assets are primarily the result of net operating losses. A valuation allowance has been established for the full amount of the deferred tax assets, since it is more likely than not that these will not be realized. The Company recorded expense of $0.2 million related to Philadelphia net profits tax for each of the years ended December 31, 2008 and 2007, respectively.

The aggregate cost basis and depreciated basis for federal income tax purposes of the Company s investment in real estate was approximately $3,864.4 million and $3,108.1 million, respectively, at December 31, 2008, and $3,526.5 million and $2,836.7 million, respectively, at December 31, 2007.

Fair Value of Financial Instruments

Carrying amounts reported on the balance sheet for cash and cash equivalents, tenant and other receivables, accrued expenses, other liabilities and the Credit Facility approximate fair value due to the short-term nature of these instruments. The Company s variable-rate debt has an estimated fair value that is approximately the same as the recorded amounts in the balance sheets. The estimated fair value for fixed-rate debt, which is calculated for disclosure purposes, is based on the borrowing rates available to the Company for fixed-rate mortgages and corporate notes payable with similar terms and maturities.

Debt assumed in connection with property acquisitions is recorded at fair value at the acquisition date and the resulting premium or discount is amortized through interest expense over the remaining term of the debt, resulting in a non-cash decrease (in the case of a premium) or increase (in the case of a discount) in interest expense.

Derivatives

In the normal course of business, the Company is exposed to financial market risks, including interest rate risk on its interest-bearing liabilities. The Company endeavors to limit these risks by following established risk management policies, procedures and strategies, including the use of derivative financial instruments. The Company does not use derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the balance sheet as assets or liabilities based on the instruments fair value. Changes in the fair value of derivative financial instruments are recognized currently in earnings, unless the derivative financial instrument meets the criteria for hedge accounting contained in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (SFAS No. 133). If the derivative financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the instrument are deferred in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction that is no longer likely to occur is immediately recognized in earnings.

The anticipated transaction to be hedged must expose the Company to interest rate risk, and the hedging instrument must reduce the exposure and meet the requirements for hedge accounting under SFAS No. 133. The Company must formally designate the instrument as a hedge and document and assess the effectiveness of the hedge at inception and on a quarterly basis. Interest rate hedges that are designated as cash flow hedges hedge future cash outflows on debt.

To determine the fair values of derivative instruments prior to settlement, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments, including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and there can be no assurance that the value in an actual transaction will be equivalent to the fair value set forth in the Company s financial statements.

Operating Partnership Unit Redemptions

Shares issued upon redemption of OP Units are recorded at the book value of the OP Units surrendered.

Share-Based Compensation Expense

The Company follows the expense recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)), which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share based payments to employees, including grants of employee stock options and restricted shares, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period.

Earnings Per Share

The difference between basic weighted average shares outstanding and diluted weighted average shares outstanding is the dilutive impact of common stock equivalents. Common stock equivalents consist primarily of shares to be issued under employee share compensation programs and outstanding share options whose exercise price was less than the average market price of the Company s share during these periods.

Recent Accounting Pronouncements

APB 14-1

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP 14-1). FSP 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. The value assigned to the debt component is the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The resulting debt discount would be amortized over the period during which the debt is expected to be outstanding as additional noncash interest expense. The Company s Exchangeable Notes are within the scope of FSP 14-1; therefore, the Company will be required to record debt components of the notes at fair value as of the date of issuance, and amortize the discount as an increase to interest expense over the expected life of the debt. FSP 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and shall be applied retrospectively to all periods presented. The Company adopted FSP 14-1 on January 1, 2009. The Company anticipates that as a result of the application of this standard, it will record additional interest expense for the years ended December 31, 2008 and 2007 of $3.5 million and $2.1 million, respectively. Also, based on the Exchangeable Notes current outstanding aggregate principal balance, the Company anticipates that it will record additional interest expense of approximately $3.1 million to $3.5 million in the years ended December 31, 2009, 2010 and 2011, and approximately $1.5 million in the year ended December 31, 2012, the year that the Exchangeable Notes mature. Additionally, the Company anticipates that the application of this standard will decrease its debt balance as of December 31, 2008 by approximately $11.4 million, with a corresponding increase to shareholders equity.

SFAS No. 161

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. The Company adopted the provisions of SFAS No. 161 on January 1, 2009 and will make the required disclosures in accordance with the pronouncement.

SFAS No. 141 R

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (rev. 2007), Business Combinations (a revision of Statement No. 141) (SFAS No. 141 R). This statement applies to all transactions or other events in which an entity

obtains control of one or more businesses, including those combinations achieved without the transfer of consideration. SFAS No. 141 R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. SFAS No. 141 R expands the scope to include all business combinations and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. Additionally, SFAS No. 141 R changes the way entities account for business combinations achieved in stages by requiring the identifiable assets and liabilities to be measured at fair value at the acquisition date. SFAS No. 141 R requires entities to directly expense transaction costs. The Company adopted the provisions of this statement on January 1, 2009, prospectively. The Company has determined that the adoption of SFAS No. 141 R will not have a material impact on the Company s consolidated financial statements.

SFAS No. 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted the provisions of this statement on January 1, 2009. The Company has determined that the adoption of SFAS No. 160 will not have a material impact on the Company s consolidated financial statements.

2. REAL ESTATE ACTIVITIES

Investments in real estate as of December 31, 2008 and 2007 were comprised of the following:

	As of December 31,	
(in thousands of dollars)	**2008**	**2007**
Buildings, improvements and construction in progress	$ 3,140,371	$ 2,819,210
Land, including land held for development	567,677	548,084
Total investments in real estate	3,708,048	3,367,294
Accumulated depreciation	(516,832)	(401,502)
Net investments in real estate	$ 3,191,216	$ 2,965,792

Impairment of assets

During the year ended December 31, 2008, the Company recorded asset impairment charges totaling $27.6 million, which is recorded as a separate line item (Impairment of assets) in the consolidated statement of income. Details about the assets that were written down are as follows:

(in thousands of dollars)	
White Clay Point	$ 11,799
Sunrise Plaza	7,027
Goodwill	4,648
Valley View Downs	3,032
Predevelopment costs	936
Land held for development	150
Total	$ 27,592

White Clay Point is a mixed use ground-up development project located in Landenberg, Pennsylvania. During the fourth quarter of 2008, in connection with the Company s 2009 business planning process, which included a strategic review of its future development projects, management determined that the development plans for White Clay Point were uncertain. Consequently, the Company recorded an impairment loss of $11.8 million, which represents the aggregate of the costs excluding the purchase price of the land that had been capitalized to date for this development. The Company believes that the carrying value of the costs remaining on its consolidated balance sheet is recoverable as the fair value of the land exceeds the carrying amount.

Sunrise Plaza is an operating power center located in Forked River, New Jersey. During the fourth quarter 2008, in connection with the Company s 2009 business planning process, which included a strategic review of its future development projects, management determined that Sunrise Plaza s carrying value exceeded its fair value. Consequently, the Company recorded an impairment loss of $7.0 million, which represents the excess of the carrying value of the project s assets over their fair value determined by their future discounted cash flows.

In September 2008, the Company entered into an Amendment Agreement with Valley View Downs, LP (Valley View) and Centaur Pennsylvania, LLC (Centaur) with respect to the development of a proposed harness racetrack and casino in western Pennsylvania (the Project) to be owned and operated by Valley View.

The Amendment Agreement amends the terms of the Binding Memorandum of Understanding dated October 7, 2004, as amended by Amendment No. 1 to the Binding Memorandum of Understanding dated October 1, 2007, among the Company, Valley View and Centaur (the MOU).

Pursuant to an amendment agreement, the Company will permit Centaur and Valley View to suspend any payments to the Company otherwise required by the MOU and the related development agreement until September 30, 2010. If there is a sale or other disposition by Valley View and Centaur of all or substantially all of their economic interest in the project on or prior to September 30, 2010, the Company and Valley View have agreed (i) that the Company will accept a cash payment of $13.0 million to the Company in satisfaction of the obligations of Valley View to the Company under the MOU and development agreement, and (ii) upon such payment, the MOU and the development agreement will be terminated. If a disposition and payment do not occur on or prior to September 30, 2010, the obligations of Centaur and Valley View to make the payments to the Company required by the MOU and development agreement will be reinstated. In the fourth quarter of 2008, the Company recorded a $3.0 million impairment charge against the amounts the Company has spent in connection with the MOU and the fees the Company has earned under the development agreement. The decision was made following a downgrade in Centaur s credit rating by major rating agencies, which caused the Company to conclude that there is significant uncertainty that it will recover the carrying amounts of the accounts receivable and the original investment associated with this project.

Valley View has obtained a harness racing license for the proposed racetrack and has applied for a license to operate a casino, but has advised the Company of the prospect of the sale or other disposition of its economic interest in the Project.

During the fourth quarter of 2008, the Company determined that there was significant uncertainty about the likelihood that it would continue in its plans to acquire a site in West Chester, Pennsylvania for a future mixed use project. The Company recorded an impairment charge of $0.9 million related to this project, representing the costs incurred related to this project to date.

During the fourth quarter of 2008, the Company determined that the carrying value of an undeveloped land parcel adjacent to its Viewmont Mall exceeded its fair value based on the Company s estimate of discounted cash flows associated with this parcel. Consequently, the Company recorded an impairment loss of $0.2 million.

2008 Acquisitions

In January 2008, the Company entered into an agreement under which it acquired a 0.1% general partnership interest and a 49.8% limited partnership interest in Bala Cynwyd Associates, L.P. (BCA), and an option to purchase the remaining partnership interests in BCA in two closings that are expected to occur in the first quarter of 2009 and the first or second quarter of 2010. BCA is the owner of One Cherry Hill Plaza, an office building located within the boundaries of the Company s Cherry Hill Mall in Cherry Hill, New Jersey. The Company acquired its interests in BCA for $4.0 million in cash paid at the first closing in February 2008. See note 11 for further discussion. The Company has consolidated BCA for financial reporting purposes.

In July 2008, the Company acquired a parcel in Lancaster, Pennsylvania for $8.0 million plus customary closing costs for future development.

2007 Acquisitions

In August 2007, the Company purchased a land parcel in Monroe Township, Pennsylvania for $5.5 million. This property, which the Company named Monroe Marketplace, is currently operating with further development activity.

In August 2007, the Company purchased Plymouth Commons, an office building adjacent to Plymouth Meeting Mall, for $9.2 million.

2006 Acquisitions

In February 2006, the Company acquired land parcels in Gainesville, Florida for approximately $21.5 million, including closing costs. The acquired parcels are collectively known as Springhills. See note 12.

In separate transactions from June 2006 to October 2006, the Company acquired the former Strawbridge s department store buildings at Cherry Hill Mall, Willow Grove Park and The Gallery at Market East from Federated Department Stores, Inc. (now named Macy s, Inc.) following its merger with The May Department Stores Company for an aggregate purchase price of $58.0 million.

In connection with the merger (the Merger) with Crown American Realty Trust (Crown) in 2003, Crown s former operating partnership retained an 11% interest in the capital and 1% interest in the profits of two partnerships that owned or ground leased 12 shopping malls. The retained interests were subject to a put-call arrangement between Crown s former operating partnership and the Company. Pursuant to this arrangement, the Company had the right to require Crown s former operating partnership to contribute the retained interest to the Company following the 36th month after the closing of the Merger (i.e., after November 20, 2006) in exchange for 341,297 additional OP Units. The Company acquired these interests in December 2006. The value of the exchanged OP Units at closing was $13.4 million. Mark E. Pasquerilla, who was elected a trustee of the Company following the Merger, and his affiliates had an interest in Crown s former operating partnership.

2007 Dispositions

In March 2007, the Company sold Schuylkill Mall in Frackville, Pennsylvania for $17.6 million. The Company recorded a gain of $6.7 million on the sale. In connection with the sale, the Company repaid the mortgage note associated with Schuylkill Mall, with a balance of $16.5 million at closing.

In May 2007, the Company sold an outparcel and related land improvements containing an operating restaurant at New River Valley Mall in Christiansburg, Virginia for $1.6 million. The Company recorded a $0.6 million gain on the sale.

In May 2007, the Company sold an outparcel and related land improvements at Plaza at Magnolia in Florence, South Carolina for $11.3 million. The Company recorded a $1.5 million gain on the sale.

In August 2007, the Company sold undeveloped land adjacent to Wiregrass Commons in Dothan, Alabama for $2.1 million. The Company recorded a $0.3 million gain on this sale.

In December 2007, the Company sold undeveloped land in Monroe Township, Pennsylvania for $0.8 million to Target Corporation. There was no gain or loss recorded on the sale.

2006 Dispositions

In transactions that closed between June 2006 and December 2006, the Company sold a total of four parcels at Plaza at Magnolia in Florence, South Carolina for an aggregate sale price of $7.9 million and recorded an aggregate gain of $0.5 million.

In September 2006, the Company sold South Blanding Village, a strip center in Jacksonville, Florida, for $7.5 million. The Company recorded a gain of $1.4 million on the sale.

In December 2006, the Company sold a parcel at Voorhees Town Center in Voorhees, New Jersey to a residential real estate developer for $5.4 million. The parcel was subdivided from the retail property. The Company recorded a gain of $4.7 million on the sale of this parcel.

Discontinued Operations

The Company has presented as discontinued operations the operating results of Schuylkill Mall, South Blanding Village and Festival at Exton.

The following table summarizes revenue and expense information for the Company s discontinued operations (there were no discontinued operations in 2008):

(in thousands of dollars)	**For the Year Ended December 31, 2007**	**2006**
Real estate revenue	$ 1,073	$ 6,334
Expenses:		
Property operating expenses	(852)	(3,597)
Depreciation and amortization	(215)	(3,871)
Interest expense	(136)	(1,067)
Total expenses	(1,203)	(8,535)
Operating results from discontinued operations	(130)	(2,201)
Gains on sales of discontinued operations	6,699	1,414
Minority interest in discontinued operations	(691)	79
Income (loss) from discontinued operations	$ 5,878	$ (708)

Development Activities

As of December 31, 2008 and 2007, the Company had capitalized $421.2 million and $298.7 million, respectively, related to construction and development activities. Of the balance at December 31, 2008, $1.6 million is included in deferred costs and other assets in the accompanying consolidated balance sheets, $411.5 million is included in construction in progress, $2.6 million is included in investments in partnerships, at equity and $5.5 million is included in land held for development. The Company had $800,000 of deposits on land purchase contracts at December 31, 2008, of which $750,000 was refundable.

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in the Company s unconsolidated partnerships as of December 31, 2008 and 2007:

(in thousands of dollars)	As of December 31, 2008	2007
ASSETS:		
Investments in real estate, at cost:		
Retail properties	$ 390,341	$ 386,050
Construction in progress	4,402	4,632
Total investments in real estate	394,743	390,682
Accumulated depreciation	(102,804)	(87,961)
Net investments in real estate	291,939	302,721
Cash and cash equivalents	5,887	10,604
Deferred costs and other assets, net	22,848	25,608
Total assets	320,674	338,933
LIABILITIES AND PARTNERS EQUITY (DEFICIT):		
Mortgage notes payable	370,206	378,317
Other liabilities	18,308	27,668
Total liabilities	388,514	405,985
Net deficit	(67,840)	(67,052)
Partners share	(33,659)	(33,025)
Company s share	(34,181)	(34,027)
Excess investment [1]	16,143	15,151
Advances	5,414	6,134
Net investments and advances	$ (12,624)	$ (12,742)
Investment in partnerships, at equity	$ 36,164	$ 36,424
Distributions in excess of partnership investments	(48,788)	(49,166)
Net investments and advances	$ (12,624)	$ (12,742)

(1) Excess investment represents the unamortized difference between the Company s investment and the Company s share of the equity in the underlying net investment in the partnerships. The excess investment is amortized over the life of the properties, and the amortization is included in Equity in income of partnerships.

The Company records distributions from its equity investments up to an amount equal to the equity in income of partnerships as cash from operating activities. Amounts in excess of the Company s share of the income in the equity investments are treated as a return of partnership capital and recorded as cash from investing activities.

Mortgage notes payable, which are secured by eight of the partnership properties (including one property in development), are due in installments over various terms extending to the year 2018, with interest rates ranging from 1.76% to 8.02% and a weighted-average

interest rate of 4.28% at December 31, 2008. The liability under each mortgage note is limited to the partnership that owns the particular property. The Company s proportionate share, based on its respective partnership interest, of principal payments due in the next five years and thereafter is as follows:

(in thousands of dollars)	Company s Proportionate Share			
For the Year Ended December 31,	Principal Amortization	Balloon Payments	Total	Property Total
2009	$ 1,820	$ 123,575	$ 125,395	$ 250,855
2010	1,750	1,412	3,162	6,387
2011	1,259	44,788	46,047	92,158
2012	246	3,708	3,954	9,795
2013	1,358	4,148	5,506	11,011
	$ 6,433	$ 177,631	$ 184,064	$ 370,206

The following table summarizes the Company s share of equity in income of partnerships for the years ended December 31, 2008, 2007 and 2006:

(in thousands of dollars)	For the Year Ended December 31, 2008	2007	2006
Real estate revenue	$ 75,168	$ 70,116	$ 67,356
Expenses:			
Property operating expenses	(23,112)	(22,095)	(19,666)
Interest expense	(21,226)	(24,472)	(22,427)
Depreciation and amortization	(16,458)	(13,763)	(13,537)
Total expenses	(60,796)	(60,330)	(55,630)
Net income	14,372	9,786	11,726
Less: Partners share	(7,154)	(4,893)	(5,863)
Company s share	7,218	4,893	5,863
Amortization of excess investment	(165)	(256)	(268)
Equity in income of partnerships	$ 7,053	$ 4,637	$ 5,595

Mortgage Activity

In November 2005, the unconsolidated partnership that owns Springfield Mall in Springfield, Pennsylvania entered into a $76.5 million mortgage loan that is secured by Springfield Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of two years, during which interest only payments were required. The loan bears interest at an annual rate equal to, at the election of the Company, LIBOR plus 1.10% or LIBOR plus 1.275% basis points while the former Strawbridge s anchor space is vacant, or at a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%. There are three separate one-year extension options, provided that there is no event of default and provided that certain other conditions are met, as required under the loan agreement. In November 2007, the partnership that owns the mall exercised the first extension option, and in November 2008, the partnership exercised the second extension option and made a principal payment of $4.2 million.

In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a $150.0 million mortgage loan that is secured by Lehigh Valley Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only were required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 0.56%. There are three separate one-year extension options, provided that there is no event of default, that the borrower buys an interest rate cap for the term of any applicable extension and provided that certain other conditions are met, as required under the loan agreement. In August 2007 and June 2008, the partnership that owns the mall exercised the first and second one-year extension options, respectively.

In October 2008, the unconsolidated partnership that owns Whitehall Mall in Allentown, Pennsylvania entered into a new $12.4 million, 10 year mortgage with a fixed interest rate of 7.0% to replace the prior mortgage on the property. The Company s interest in the unconsolidated partnership is 50%.

4. FINANCING ACTIVITY

General

In September 2008, the Company entered into a senior unsecured Term Loan Agreement (the Term Loan) under which it borrowed $170.0 million. Also in September 2008, the Company closed agreements for an aggregate of $286.3 million through four separate loan transactions, each of which is secured by a mortgage on an operating retail property owned by the Company. The Company used the proceeds of these four mortgage loans, the Term Loan borrowing and a borrowing under its Credit Facility to repay the Company s $400.9 million, 15 property real estate mortgage investment conduit (the REMIC) in full. In connection with this repayment, the 15 malls were released from the liens under the REMIC, and, as described below, four of these malls were used to secure new mortgage financings. The Company assumed the REMIC in connection with its 2003 merger with Crown American Realty Trust.

Exchangeable Notes

In May 2007, the Company, through its Operating Partnership, completed the sale of $287.5 million aggregate principal amount of exchangeable notes due 2012 (Exchangeable Notes). The net proceeds from the offering of $281.0 million were used for the repayment of indebtedness under the Company s Credit Facility, the cost of the capped call transactions related to the issuance of the Exchangeable Notes, and for other general corporate purposes. The Exchangeable Notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. Interest payments are due on June 1 and December 1 of each year, and began on December 1, 2007, and will continue until the maturity date of June 1, 2012. The Operating Partnership s obligations under the Exchangeable Notes are fully and unconditionally guaranteed by the Company.

The Exchangeable Notes bear interest at 4.00% per annum and contain an exchange settlement feature. Pursuant to this feature, upon surrender of the Exchangeable Notes for exchange, the Exchangeable Notes will be exchangeable for cash equal to the principal amount of the Exchangeable Notes and, with respect to any excess exchange value above the principal amount of the Exchangeable Notes, at the Company s option, for cash, common shares of the Company or a combination of cash and common shares at an initial exchange rate of 18.303 shares per $1,000 principal amount of Exchangeable Notes, or $54.64 per share. The Exchangeable Notes will be exchangeable only under certain circumstances. Prior to maturity, the Operating Partnership may not redeem the Exchangeable Notes except to preserve the Company s status as a real estate investment trust. If the Company undergoes certain change of control transactions at any time prior to maturity, holders of the Exchangeable Notes may require the Operating Partnership to repurchase their Exchangeable Notes in whole or in part for cash equal to 100% of the principal amount of the Exchangeable Notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date, and there is a mechanism for holders to receive any excess exchange value. The Indenture for the Exchangeable Notes does not contain any financial covenants.

In connection with the offering of the Exchangeable Notes, the Company and the Operating Partnership entered into capped call transactions with affiliates of the initial purchasers of the Exchangeable Notes. These agreements effectively increase the exchange price of the Exchangeable Notes to $63.74 per share. The cost of these agreements of $12.6 million was recorded in the shareholders equity section of the Company s consolidated balance sheet.

In December 2008, the Company repurchased $46.0 million in aggregate principal amount of its Exchangeable Notes in privately-negotiated transactions for an aggregate purchase price of $15.9 million, which resulted in a gain on extinguishment of debt of $29.3 million. The Company terminated an equivalent notional amount of the related capped calls. In connection with the repurchases, the Company retired approximately $0.8 million of deferred financing costs. As of December 31, 2008, $241.5 million in aggregate principal amount of the Exchangeable Notes remained outstanding. In January 2009, the Company repurchased an additional $2.1 million in aggregate principal amount of its Exchangeable Notes for $0.7 million, resulting in a gain on extinguishment of debt of $1.4 million.

Senior Unsecured Term Loan

In September 2008, the Company borrowed an aggregate of $170.0 million under its Term Loan with a stated interest rate of 2.50% above LIBOR. Also in September 2008, the Company swapped the floating interest rate on $130.0 million of the Term Loan balance to a fixed rate of 5.33%, effective October 1, 2008. In October 2008, the Company swapped the floating interest rate on the remaining $40.0 million of the Term Loan balance to a fixed rate of 5.15%. The Company may increase the outstanding amount of the Term Loan, subject to certain conditions and to the participation of additional lenders, on one additional occasion before the initial maturity date of March 20, 2010. The Company may extend the maturity date of the Term Loan, subject to certain conditions, on one occasion for a period of one year. If the Company exercises this right, it would pay an extension fee of 0.25% of the then outstanding principal. The weighted average effective interest rate based on amounts borrowed was 5.72%. The weighted average interest rate on amounts outstanding at December 31, 2008 was 5.29%.

Interest under the Term Loan is payable monthly in arrears, and no principal payment is due until the end of the term. The Term Loan contains lender yield protection provisions. The Company may not prepay the loan during the first twelve months of the term, but may prepay all or a portion of the Term Loan beginning in the thirteenth month, subject to a prepayment fee. The Company and certain of its subsidiaries are guarantors of the obligations arising under the Term Loan.

The Term Loan contains customary representations and affirmative and negative covenants, including compliance with certain financial covenants that are materially the same as those contained in the Company s Credit Facility. As of December 31, 2008, the Company was in compliance with all of these covenants.

Mortgages

Mortgage notes payable, which are secured by 24 of the Company s consolidated properties, are due in installments over various terms extending to the year 2017 with contract interest rates ranging from 4.95% to 7.61% and a weighted average interest rate of 5.78% at December 31, 2008.

Principal payments are due as follows:

(in thousands of dollars)

For the Year Ended December 31,	**Principal Amortization**	**Balloon Payments**	**Total**
2009	$ 17,053	$ 58,009	$ 75,062
2010	18,649	19,448	38,097
2011	19,795	99,000	118,795
2012	18,214	359,638	377,852
2013	12,712	402,722	415,434
2014 and thereafter	24,180	706,850	731,030
	$ 110,603	$ 1,645,667	$ 1,756,270
Debt Premium			4,026
			$ 1,760,296

The Company determined that the fair value of the mortgage notes payable was approximately $1,681.7 million at December 31, 2008, based on year-end interest rates and market conditions. The mortgage notes payable contain affirmative and negative covenants customarily found in notes of this kind. As of December 31, 2008, the Company was in compliance with all of these covenants.

Mortgage Activity

The following table presents the mortgage loans that the Company entered into during the years ended December 31, 2008, 2007 and 2006:

(in millions of dollars)

Financing Date	**Property**	**Amount Financed or Extended**	**Stated Rate**	**Swapped Rate**	**Maturity**
2006 Activity:					
February	Valley Mall	$ 90.0	5.49 % fixed	n/a	February 2016
March	Woodland Mall(1)	156.5	5.58 % fixed	n/a	April 2016
2007 Activity:					
May	The Mall at Prince Georges(2)	150.0	5.51% fixed	n/a	June 2017
2008 Activity:					
January	Cherry Hill Mall(3)(4)	55.0	5.51% fixed	n/a	October 2012
February	One Cherry Hill Plaza(2)(5)	8.0	LIBOR plus 1.30%	n/a	August 2009
May	Creekview Center(6)	20.0	LIBOR plus 2.15%	5.56%	June 2010
June	Christiana Center(2)(7)	45.0	LIBOR plus 1.85%	5.87%	June 2011
July	Paxton Towne Centre(2)(7)	54.0	LIBOR plus 2.00%	5.84%	July 2011
September	Patrick Henry Mall(8)	97.0	6.34% fixed	n/a	October 2015
September	Jacksonville Mall(2)(9)(10)	56.3	LIBOR plus 2.10%	5.83%	September 2013
September	Logan Valley Mall(2)(10)(11)	68.0	LIBOR plus 2.10%	5.79%	September 2013
September	Wyoming Valley Mall(2)(10)(12)	65.0	LIBOR plus 2.25%	5.85%	September 2013
November	Francis Scott Key Mall(2)	55.0	LIBOR plus 2.35%	5.25%	December 2013
November	Viewmont Mall(2)	48.0	LIBOR plus 2.35%	5.25%	December 2013
December	Exton Square Mall(13)	70.0	7.50% fixed	n/a	January 2014

(1) Interest only for the first three years then amortization based on a 30-year amortization schedule.
(2) Interest only.
(3) Supplemental financing with a maturity date that coincides with the existing first mortgage.

(4) First 24 payments are interest only followed by principal and interest payments based on a 360-month amortization schedule.
(5) Entered into this mortgage as a result of the acquisition of Bala Cynwyd Associates, L.P. (BCA). Mortgage has two one-year extension options.
(6) Mortgage has a term of two years and three one-year extension options.
(7) Mortgage has a term of three years and two one-year extension options.
(8) Payments based on 25 year amortization schedule, with balloon payment in October 2015.
(9) On one occasion prior to March 9, 2010, the Company may request an increase in the principal amount of the loan of up to $3.7 million, or a total of $60.0 million principal in total, subject to satisfaction of a financial condition.
(10) Mortgage has a term of five years and two one-year extension options.
(11) The loan bears interest at an annual rate equal to, at the election of the borrower, LIBOR plus 2.10%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.
(12) The loan bears interest at an annual rate equal to, at the election of the borrower, LIBOR plus 2.25%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.
(13) Payments based on 30 year amortization schedule, with balloon payment in January 2014.

In July 2008, the Company repaid a $12.7 million mortgage loan on Crossroads Mall in Beckley, West Virginia, using funds from its Credit Facility and available working capital.

In December 2008, the Company repaid a $93.0 million mortgage loan on Exton Square Mall in Exton, Pennsylvania using $70.0 million from a new mortgage on the property, the Company s Credit Facility and available working capital.

In January 2009, the Company repaid a $15.7 million mortgage loan on Palmer Park Mall in Easton, Pennsylvania using funds from its Credit Facility.

Credit Facility

The amounts borrowed under the Company s $500.0 million Credit Facility bear interest at a rate between 0.95% and 2.00% per annum over LIBOR based on leverage. In determining leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. In the determination of the Company s Gross Asset Value, when the Company completes the redevelopment or development of a property and it is Placed in Service, the amount of Construction in Progress of such property included in Gross Asset Value is gradually reduced over a four quarter period. The availability of funds under the Credit Facility is subject to compliance with financial and other covenants and agreements. In October 2008, the Company exercised an option to extend the term of the Credit Facility to March 2010.

As of December 31, 2008 and 2007, $400.0 million and $330.0 million, respectively, were outstanding under the Credit Facility. The Company pledged $6.4 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to the Company was $93.6 million at December 31, 2008. The weighted average effective interest rate based on amounts borrowed was 4.63%, 6.34% and 6.50% for the years ended December 31, 2008, 2007, and 2006, respectively. The weighted average interest rate on outstanding Credit Facility borrowings at December 31, 2008 was 2.87%.

As amended, the Credit Facility contains affirmative and negative covenants customarily found in facilities of this type, as well as requirements that the Company maintain, on a consolidated basis (all capitalized terms used in this paragraph have the meanings ascribed to such terms in the Credit Agreement): (1) a minimum Tangible Net Worth of not less than 75% of the Tangible Net Worth of the Company on December 31, 2007 plus 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2007; (2) a maximum ratio of Total Liabilities to Gross Asset Value of 0.65:1, provided that such ratio may exceed 0.65:1 for one period of two consecutive fiscal quarters but may not exceed 0.70:1; (3) a minimum ratio of EBITDA to Indebtedness of 0.0975:1, provided that such ratio may be less than 0.0975:1 for one period of two consecutive fiscal quarters but may not be less than 0.0925:1; (4) a minimum ratio of Adjusted EBITDA to Fixed Charges of 1.40:1 for periods ending on or before

December 31, 2008, after which time the ratio is 1.50:1; (5) maximum Investments in unimproved real estate and predevelopment costs not in excess of 5.0% of Gross Asset Value; (6) maximum Investments in Persons other than Subsidiaries and Unconsolidated Affiliates not in excess of 5.0% of Gross Asset Value; (7) maximum Investments in Indebtedness secured by Mortgages in favor of the Company or any other Subsidiary not in excess of 5.0% of Gross Asset Value; (8) maximum Investments in Subsidiaries that are not Wholly-Owned Subsidiaries and Investments in Unconsolidated Affiliates not in excess of 20.0% of Gross Asset Value; (9) maximum Investments subject to the limitations in the preceding clauses (5) through (7) not in excess of 10.0% of Gross Asset Value; (10) a maximum Gross Asset Value attributable to any one Property not in excess of 15.0% of Gross Asset Value; (11) a maximum Total Budgeted Cost Until Stabilization for all properties under development not in excess of 20.0% of Gross Asset Value at any time on or before June 30, 2009, and 15.0% of Gross Asset Value at any time after June 30, 2009; (12) a maximum Floating Rate Indebtedness in an aggregate outstanding principal amount not in excess of one-third of all Indebtedness of the Company, its Subsidiaries and its Unconsolidated Affiliates; (13) a maximum ratio of Secured Indebtedness of the Company, its Subsidiaries and its Unconsolidated Affiliates to Gross Asset Value of 0.60:1; and (14) a maximum ratio of recourse Secured Indebtedness of the Borrower or Guarantors to Gross Asset Value of 0.25:1. As of December 31, 2008, the Company was in compliance with all of these debt covenants.

5. DERIVATIVES

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2008, the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Forward Starting Interest Rate Swaps

In 2008, the Company cash settled all of its forward-starting interest rate swaps with an aggregate notional amount of $400.0 million. The Company paid an aggregate of $16.5 million in cash to settle these swaps. The swaps were settled in anticipation of the Company s issuance of long term debt. Accumulated other comprehensive loss as of December 31, 2008 includes a net loss of $14.4 million relating to forward-starting swaps that the Company has cash settled that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

During the second quarter of 2008, the Company revised its estimates regarding the expected terms of its anticipated issuances of long term debt. This change in estimates resulted in hedge ineffectiveness for a portion of the forward starting swaps that were outstanding on the date that the estimates changed. In 2008, the Company recorded a gain due to hedge ineffectiveness of $46,000 and a net loss of $358,000 due to hedge ineffectiveness. Also, for several of these swaps, the result of this change in estimates was that the swaps were no longer designated as cash flow hedges since they no longer met the requirements for hedge accounting. The Company recorded a net gain of $2.4 million in 2008 in connection with these swaps. The net gain represents the change in the fair market value of the swaps from the date of de-designation to the date when the swaps were either settled or redesignated. The swap net gain and the net hedge ineffectiveness gain/ loss are recorded in interest expense in the accompanying statements of income.

Interest Rate Swaps

As of December 31, 2008, the Company had entered into 12 interest rate swap agreements that have a weighted average rate of 3.31% on a notional amount of $581.3 million maturing on various dates through November 2013.

The Company entered into these interest rate swap agreements in order to hedge the interest payments associated with the Company s 2008 issuances of floating rate long-term debt. The Company assessed the effectiveness of these swaps as hedges at inception and on December 31, 2008, and considered these swaps to be highly effective cash flow hedges. The Company s interest rate swaps are net settled monthly.

As of December 31, 2008, the aggregate estimated unrealized net loss attributed to these interest rate swaps was $29.2 million. The carrying amount of the derivative assets is reflected in deferred costs and other assets, the associated liabilities are reflected in accrued expenses and other liabilities and the net unrealized gain is reflected in accumulated other comprehensive loss in the accompanying balance sheets.

The following table summarizes the terms and fair values of the Company s interest rate swap derivative instruments at December 31, 2008. The notional amounts at December 31, 2008 provide an indication of the extent of the Company s involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

Notional Value	**Fair Value at December 31, 2008**	**Interest Rate**	**Maturity Date**
$20.0 million	$(0.7) million	3.41%	June 1, 2010
$45.0 million	(2.8) million	4.02%	June 19, 2011
$54.0 million	(3.3) million	3.84%	July 25, 2011
$25.0 million	(0.6) million	2.86%	March 20, 2010
$75.0 million	(1.7) million	2.83%	March 20, 2010
$30.0 million	(0.7) million	2.79%	March 20, 2010
$65.0 million	(4.7) million	3.60%	September 9, 2013
$68.0 million	(5.2) million	3.69%	September 9, 2013
$56.3 million	(4.4) million	3.73%	September 9, 2013
$40.0 million	(0.8) million	2.65%	March 22, 2010
$55.0 million	(2.3) million	2.90%	November 29, 2013
$48.0 million	(2.0) million	2.90%	November 29, 2013

$581.3 million	$ (29.2) million

6. PREFERRED SHARE REDEMPTION

On July 31, 2007, the Company redeemed all of its 11% non-convertible senior preferred shares for $129.9 million, or $52.50 per preferred share, plus accrued and unpaid dividends to the redemption date of $1.9 million. The preferred shares were issued in November 2003 in connection with the Merger with Crown, and were initially recorded at $57.90 per preferred share, the fair value based on the market value of the corresponding Crown preferred shares as of May 13, 2003, the date on which the financial terms of the Merger were substantially complete. In order to finance the redemption, the Company borrowed $131.8 million under its Credit Facility. As a result of the redemption, the $13.3 million excess of the carrying amount of the preferred shares, net of expenses, over the redemption price is included in Income Available to Common Shareholders in the year ended December 31, 2007.

7. BENEFIT PLANS

The Company maintains a 401(k) Plan (the Plan) in which substantially all of its employees are eligible to participate. The Plan permits eligible participants, as defined in the Plan agreement, to defer up to 15% of their compensation, and the Company, at its discretion, may match a specified percentage of the employees contributions. The Company s and its employees contributions are fully vested, as defined in the Plan agreement. The Company s contributions to the Plan were $1.0 million for each of the years ended December 31, 2008, 2007 and 2006.

The Company also maintains Supplemental Retirement Plans (the Supplemental Plans) covering certain senior management employees. Expenses recorded by the Company under the provisions of the Supplemental Plans were $0.6 million, $0.6 million and $0.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company also maintains share purchase plans through which the Company s employees may purchase shares of beneficial interest at a 15% discount to the fair market value (as defined therein). In the years ended December 31, 2008, 2007, and 2006, approximately 45,000, 20,000 and 17,000 shares, respectively, were purchased for total consideration of $0.7 million for the year ended December 31, 2008 and $0.6 million, for each of the years ended December 31, 2007, and 2006. The Company recorded an expense of $0.1 million, $0.2 million and $0.2 million in the years ended December 31, 2008, 2007 and 2006, respectively, related to the share purchase plans.

8. COMMON SHARE REPURCHASE PROGRAM

In December 2007, the Company s Board of Trustees authorized a program to repurchase up to $100.0 million of the Company s common shares through solicited or unsolicited transactions in the open market or in privately negotiated or other transactions from January 1, 2008 until December 31, 2009, subject to the Company s authority to terminate the program earlier. Previously, in October 2005, the Company s Board of Trustees had authorized a program to repurchase up to $100.0 million of the Company s common shares. That program expired by its terms on December 31, 2007. The Company may fund repurchases under the program from any source deemed appropriate at the time of a repurchase. The Company is not required to repurchase any shares under the program. The dollar amount of shares that may be repurchased or the timing of such transactions is dependent on the prevailing price of the Company s common shares and market conditions, among other factors. The program will be in effect until the end of 2009, subject to the authority of the Company s Board of Trustees to terminate the program earlier.

Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, the Company accounts for the purchase price of the shares repurchased as a reduction of shareholder s equity and allocates the purchase price between retained earnings, shares of beneficial interest and capital contributed in excess of par as required. The Company did not repurchase any shares in 2008 or 2006. In 2007, the Company repurchased 152,500 shares at an average price of $35.67, or an aggregate purchase price of $5.4 million.

9. SHARE BASED COMPENSATION

As of December 31, 2008, there were two share based compensation plans under which the Company continues to make awards: its 2003 Equity Incentive Plan and its 2008 Restricted Share Plan for Non-Employee Trustees, which was approved in 2007. Previously, the Company maintained five other plans pursuant to which it granted awards of restricted shares or options. Certain restricted shares and certain options granted under these previous plans remain subject to restrictions or outstanding and exercisable, respectively. In addition, the Company previously maintained a plan pursuant to which it granted options to its non-employee trustees.

The Company follows the expense recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires all share based payments to employees to be valued at their fair value on the date of grant, and to be expensed over the applicable vesting period.

Share Based Compensation Plans

For the years ended December 31, 2008, 2007 and 2006, the Company recorded aggregate compensation expense for share based awards of $9.4 million, $8.0 million and $7.4 million, respectively, in connection with the equity programs described below. There was no income tax benefit recognized in the income statement for share based compensation arrangements. The Company capitalized compensation costs related to share based awards of $0.4 million in both 2008 and 2007.

2003 Equity Incentive Plan

Subject to any future adjustments for share splits and similar events, the total remaining number of common shares that may be issued under the Company s 2003 Equity Incentive Plan (pursuant to options, restricted shares or otherwise) was 1,499,880 as of December 31, 2008. The share based awards described below in this section were all made under the 2003 Equity Incentive Plan.

Restricted Shares

In 2008, 2007 and 2006, the Company made grants of restricted shares subject to time based vesting. In addition, in 2005, the Company made grants of restricted shares that were subject to market based vesting. The aggregate fair value of the restricted shares that the Company granted to its employees in 2008, 2007 and 2006 was $5.0 million, $6.0 million, and $4.9 million, respectively. As of December 31, 2008, there was $9.9 million of total unrecognized compensation cost related to unvested share based compensation arrangements granted under the 2003 Equity Incentive Plan. The cost is expected to be recognized over a weighted average period of 1.1 years. The total fair value of shares vested during the years ended December 31, 2008, 2007, and 2006 was $4.4 million, $4.0 million, and $4.8 million, respectively.

The Company will record future compensation expense in connection with the vesting of existing time based and market based restricted share awards as follows:

(in thousands of dollars) **Year ended December 31,**	**Future Compensation Expense**
2009	$ 4,495
2010	3,002
2011	2,158
2012	288
Total	$ 9,943

A summary of the status of the Company s unvested restricted shares as of December 31, 2008 and changes during the year ended December 31, 2008 is presented below:

	Shares	**Weighted Average Grant Date Fair Value**
Unvested at January 1, 2008	477,413	$ 37.18
Shares granted	204,285	25.75
Shares vested	(119,448)	39.87
Shares forfeited	(29,320)	31.99
Unvested at December 31, 2008	532,930	$ 35.62

Restricted Shares Subject to Market Based Vesting

In 2003, 2004, and 2005, the Company granted restricted shares that were subject to market based vesting. The restricted shares subject to market based vesting vest in equal installments over a five-year period if specified total return to shareholders (as defined in the grant) goals established at the time of the grant are met in each year. If the goal is not met in any year, the awards provide for excess amounts of total return to shareholders in a prior or subsequent year to be carried forward or carried back to the year in which the goals were not met. Unvested market based restricted shares remain outstanding and vest in accordance with the applicable award agreement upon the death or disability of the executive, or are forfeited if an executive s employment is terminated for any reason other than by death, disability, by PREIT without cause or by the officer for good reason. Vesting is accelerated upon a change in control of the Company. The annual total return to shareholders goal for the market based restricted shares awarded in 2005 was set at the greater of (i) 110% of the total return to shareholders of a specified index of real estate investment trusts for each of the five years or (ii) the dividends paid by the Company during the year, expressed as a percentage of the market value of a share, as of the beginning of the year, plus 1%. No market based restricted shares vested in 2006, 2007 or 2008 since the Company s total return to shareholders was less than the annual total return to shareholders goal for the awards. Because the vesting of the market based restricted shares granted in 2004 depended upon the achievement of certain total return to shareholders goals by December 31, 2008, and because the Company did not meet this objective by that date, 53,969 of the shares granted in 2004 have been forfeited. However, as of December 31, 2008, these shares had not yet been characterized in shares forfeited in the table above pending a formal determination by the compensation committee of the Board of Trustees of the Company in accordance with the terms of the 2003 Equity Incentive Plan, which typically occurs early in the following year. As such, the 53,969 shares that will be forfeited as of December 31, 2008 following the formal action of the compensation committee of the Board of Trustees are not categorized in shares forfeited in the table above. Because the vesting of the market based restricted shares granted in 2003 depended upon the achievement of certain total return to shareholders goals by December 31, 2007, and because the Company did not meet this objective by that date, 16,831 of the shares granted in 2003 have been forfeited. The Company granted a total of 67,147 restricted shares subject to market based vesting in 2005. However, as described above, recipients of shares subject to market based vesting only earn these common shares if specified total return to shareholders goals are met, and to date, none of the shares granted have been earned. Recipients are entitled to receive an amount equal to the dividends on the shares prior to vesting. The grant date fair value of these awards was determined using a Monte Carlo simulation probabilistic valuation model and was $29.00 for 2005. For purposes of the simulation, the Company assumed an expected quarterly total return to shareholders of a specified index of real estate investment trusts of 2.2%, a standard deviation of 6.4%, and a 0.92 correlation of the Company s total return to shareholders to that of the specified index of real estate investment trusts for the 2005 awards. Compensation cost relating to these market based vesting awards is recorded ratably over the five-year period. The Company recorded $0.6 million, $1.1 million, and $0.5 million of compensation expense related to market based restricted shares for the years ended December 31, 2008, 2007 and 2006, respectively.

Restricted Shares Subject to Time Based Vesting

The Company makes grants of restricted shares subject to time based vesting. The awarded shares generally vest over periods of up to five years (four years for grants made in 2008), typically in equal annual installments, as long as the recipient is an employee of the Company on the vesting date. For senior executive officers with employment agreements, the shares generally vest immediately upon death or disability. Recipients are entitled to receive an amount equal to the dividends on the shares prior to vesting. The Company granted a total of 195,285, 132,430 and 117,025 restricted shares subject to time based vesting to its employees in 2008, 2007 and 2006, respectively. The weighted average grant date fair value of time based restricted shares, which were determined based on the average of the high and low sales price of a common share on the date of grant, was $25.74 per share in 2008, $45.11 per share in 2007 and $41.79 per share in 2006. Compensation cost relating to time based restricted shares awards is recorded ratably over the respective vesting periods. The Company recorded $5.1 million, $4.3 million and $3.9 million of compensation expense related to time based restricted shares for the years ended December 31, 2008, 2007 and 2006, respectively.

Restricted Share Unit Program

In February 2008, February 2007 and May 2006, the Company s Board of Trustees established the 2008-2010 RSU Program, the 2007-2009 RSU Program and the 2006-2008 RSU Program, respectively (the RSU Programs). Under the RSU Programs, the Company may make awards in the form of market based performance-contingent restricted share units, or RSUs. The RSUs represent the right to earn common shares in the future depending on the Company s performance in terms of total return to shareholders (as defined in the RSU Programs) for the three year periods ending December 31, 2010, 2009 and 2008 (each, a Measurement Period) relative to the total return to shareholders for the applicable Measurement Period of companies comprising an index of real estate investment trusts (the Index REITs). If the Company s total return to shareholders performance is below the 25th percentile of the Index REITs, then no shares will be earned. If the Company s total return to shareholders over the applicable Measurement Period is above the 25th, 50th or 75th percentiles of the Index REITs, then a percentage of the awards ranging from 50% to 150% will be earned. Dividends are deemed credited to the RSU accounts and are applied to acquire more RSUs for the account of the participants at the 20-day average price per common share ending on the dividend payment date. If earned, awards will be paid in common shares in an amount equal to the applicable percentage of the number of RSUs in the participant s account at the end of the applicable Measurement Period. The aggregate fair value of the RSU awards in 2008, 2007 and 2006 was determined using a Monte Carlo simulation probabilistic valuation model and was $2.6 million ($21.68 per share), $3.4 million ($50.58 per share) and $1.9 million ($44.30 per share), respectively. For purposes of the 2008 simulation, the Company assumed volatility of 26.3%, which is calculated based on the volatility of the Company s share price over the last three years, a risk-free interest rate of 2.43%, which reflects the yield on a three-year Treasury bond, and a stock beta of 0.973 compared to the Dow Jones US Real Estate Index based on three years of historical price data. For the purpose of the 2007 simulation, the Company assumed volatility of 22.0%, which is calculated based on the volatility of the Company s share price over three prior years, a risk-free interest rate of 4.74%, which reflects the yield on a three-year Treasury bond, and a stock beta of 1.029 compared to the Dow Jones US Real Estate Index based on three years of historical price data. For the purpose of the 2006 simulation, the Company assumed volatility of 21.6%, which is calculated based on the volatility of the Company s share price over the three prior years, a risk-free interest rate of 4.80%, which reflects the yield on a three-year Treasury bond, and a stock beta of 0.955 compared to the Dow Jones US Real Estate Index based on three years of historical price data.

Compensation cost relating to these RSU awards is being expensed over the applicable three year vesting period. The Company granted a total of 122,113 RSUs in 2008, 67,430 RSUs in 2007, and 43,870 RSUs in 2006. However, as described above, recipients of RSU s only earn common shares if the Company s total return to shareholders for the applicable Measurement Period exceeds certain percentiles of the Index REITs, and as such, none of the RSUs were earned as of December 31, 2008. The Company recorded $2.6 million, $1.6 million and $0.5 million of compensation expense related to the RSU Programs for the years ended December 31, 2008, 2007 and 2006, respectively. The Company will record future compensation expense related to the existing awards under the RSU Programs as follows:

(in thousands of dollars) **Year ended December 31,**	**Future Compensation Expense**

2009	$	2,156
2010		1,070
2011		125
Total	$	3,351

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Outperformance Program

In January 2005, the Company s Board of Trustees approved the 2005-2008 Outperformance Program (OPP), a performance-based incentive compensation program that was designed to pay a bonus (in the form of common shares) if the Company s total return to shareholders (as defined in the OPP) exceeded certain thresholds over a four year measurement period beginning on January 1, 2005. The grant date fair value of the OPP awards in 2005 was determined using a Monte Carlo simulation probabilistic valuation model and the aggregate value of $3.7 million was expensed over the four year vesting period. For purposes of the simulation, the Company assumed an expected quarterly total return to shareholders of a specified index of real estate investment trusts of 2.2%, a standard deviation of 6.2% and a 0.92 correlation of the Company s total return to shareholders to that of the specified index of real estate investment trusts. The Compensation Committee of the Company s Board of Trustees has determined that the Company s total return to shareholders for the measurement period of January 1, 2005 through December 31, 2008 did not exceed the thresholds set forth in the OPP, and thus no shares were awarded under the OPP.

The Company recorded $0.8 million, $0.8 million and $1.2 million of compensation expense related to the OPP for the years ended December 31, 2008, 2007 and 2006, respectively. During the year ended December 31, 2008, the Company determined that the fair value of the OPP was incorrectly recorded as accrued expenses and other liabilities, instead of as capital contributed in excess of par. Had the OPP activity been recorded correctly, it would have increased shareholders equity and decreased total liabilities by $2.9 million, or 0.4% of total shareholders equity as of December 31, 2007. The Company discovered and corrected this error in the current year. The Company correctly recorded compensation expense related to the OPP. Management has evaluated the impact of this item, and concluded that it is not material to the financial position of the Company as of December 31, 2007, or any prior period.

Service Awards

In 2008, 2007 and 2006, the Company issued 1,275, 1,475, and 1,750 shares, respectively, without restrictions to non-officer employees as service awards. The aggregate fair value of the awards of $25,000, $60,000, and $70,000 in each of the years ended December 31, 2008, 2007 and 2006, respectively, was recorded as compensation expense.

Executive Separation

In 2006, the Company issued 6,736 shares in connection with an executive separation at a fair value of $41.67 per share. See note 11. In connection with this issuance, the Company recorded $0.3 million of compensation expense in the year ended December 31, 2006.

Restricted Share Plan For Non-Employee Trustees

The 2008 Restricted Share Plan for Non-Employee Trustees approved in 2007 provides for the granting of restricted share awards to non-employee trustees of the Company. In 2008, the Company made grants of restricted shares to non-employee trustees under the 2008 Restricted Share Plan. In 2007 and 2006, the Company made grants of restricted shares to non-employee trustees subject to time based vesting under a predecessor plan. The aggregate fair value of the restricted shares that the Company granted to its non-employee trustees in 2008, 2007 and 2006 was $0.2 million, $0.4 million and $0.3 million, respectively. The Company recorded $0.3 million, $0.4 million and $0.3 million of compensation expense related to time based vesting of non-employee trustee restricted share awards in 2008, 2007 and 2006, respectively. As of December 31, 2008, there was $0.3 million of total unrecognized compensation cost related to unvested restricted share grants to non-employee trustees. The cost is expected to be recognized over a weighted average period of 0.7 years. The total fair value of shares granted to non-employee trustees that vested was $0.4 million during each of the years ended December 31, 2008, 2007, and 2006. There were 51,000 shares available for grant to non-employee trustees at December 31, 2008. The Company will record future compensation expense in connection with the vesting of existing non-employee trustee restricted share awards as follows:

(in thousands of dollars) **Year ended December 31,**	**Future Compensation Expense**
2009	$ 216
2010	88
2011	6
Total	$ 310

Options Outstanding

Options are typically granted with an exercise price equal to the fair market value of the underlying shares on the date of the grant. The options vest and are exercisable over periods determined by the Company, but in no event later than ten years from the grant date. The Company has six plans under which it has historically granted options. The Company has not granted any options to its employees since 2003, and, since that date, has only made option grants to non-employee trustees on the date they became trustees in accordance with an existing policy. Cash received from options exercised in 2008, 2007 and 2006 was $0.6 million, $5.0 million, and $1.3 million, respectively. The total intrinsic value of stock options exercised for the years ended December 31, 2008, 2007, and 2006, was $46,000, $1.9 million, and $1.1 million, respectively. The following table presents the changes in the number of options outstanding from January 1, 2006 through December 31, 2008:

	Weighted Average Exercise Price/ Total	**2003 Equity Incentive Plan**	**1999 Equity Incentive Plan**	**1998 Stock Option Plan**	**1997 Stock Option Plan**	**1990 Employees Plan**	**1990 Non-Employee Trustee Plan**
Options outstanding at January 1, 2006	$ 23.70	18,974	100,000	35,300	201,000	26,105	49,875
Options exercised	$ 22.77	(4,889)		(7,250)	(11,000)	(25,605)	(8,875)
Options forfeited							
Options outstanding at December 31, 2006	$ 23.46	14,085	100,000	28,050	190,000	500	41,000
Options exercised	$ 25.33	(1,792)		(2,500)	(190,000)	(500)	(3000)
Options forfeited							
Options outstanding at December 31, 2007	$ 21,36	12,293	100,000	25,550			38,000
Options exercised	$ 23.85			(25,550)			
Options forfeited	24.50						(1,000)
Options outstanding at December 31, 2008 (1)	149,293	12,293	100,000				37,000
Outstanding options							
Average exercise price per share	$ 20.91	$ 33.05	$ 17.84	$	$	$	$ 25.19
Aggregate exercise price (2)	$ 3,122	$ 406	$ 1,784	$	$	$	$ 932
Intrinsic value of options outstanding (2)	$		$	$	$	$	$
Exercisable options outstanding at December 31, 2008 (3)							
Options outstanding at December 31, 2008	148,043	11,043	100,000				37,000
Average exercise price per share	$ 20.77	$ 32.50	$ 17.84	$	$	$	$ 25.19
Aggregate exercise price (2)	$ 3,075	$ 359	$ 1,784	$	$	$	$ 932
Intrinsic value of options outstanding (2)	$	$	$	$	$	$	$

(1) As of December 31, 2008, an aggregate of exercisable and unexercisable options to purchase 149,293 shares of beneficial interest with a weighted average remaining contractual life of 2.5 years (weighted average exercise price of $20.91 per share and an aggregate price of $3.1 million) were outstanding.

(2) Amounts in thousands of dollars.

(3) As of December 31, 2008, an aggregate of exercisable options to purchase 148,043 shares of beneficial interest with a weighted average exercise price of $20.77 per share and an aggregate exercise price of $3.1 million were outstanding.

The following table summarizes information relating to all options outstanding as of December 31, 2008:

Range of Exercise Prices (Per Share)	Options Outstanding as of December 31, 2008 Number of Shares	Options Outstanding as of December 31, 2008 Weighted Average Exercise Price (Per Share)	Options Exercisable as of December 31, 2008 Number of Shares	Options Exercisable as of December 31, 2008 Weighted Average Exercise Price (Per Share)	Weighted Average Remaining Life (years)
$13.00-$18.99	108,503	$ 17.75	108,503	$ 17.75	1.8
$19.00-$28.99	20,790	$ 23.28	20,790	$ 23.28	2.7
$29.00-$38.99	20,000	$ 35.62	18,750	$ 35.46	5.5

No options were granted in 2008, 2007 or 2006.

10. LEASES

As Lessor

The Company s retail properties are leased to tenants under operating leases with various expiration dates ranging through 2095. Future minimum rent under noncancelable operating leases with terms greater than one year are as follows:

(in thousands of dollars) **For the Year Ended December 31,**	
2009	$ 279,200
2010	252,035
2011	216,726
2012	180,260
2013	159,787
2014 and thereafter	643,130
	$ 1,731,138

The total future minimum rent as presented does not include amounts that may be received as tenant reimbursements for certain operating costs or contingent amounts that may be received as percentage rent.

As Lessee

Assets recorded under capital leases, primarily office and mall equipment, are capitalized using interest rates appropriate at the inception of each lease. The Company also has operating leases for its corporate office space (see note 11) and for various computer, office and mall equipment. Furthermore, the Company is the lessee under third-party ground leases for portions of the land at seven of its properties (Crossroads Mall, Voorhees Town Center, Exton Square Mall, The Gallery at Market East, Orlando Fashion Square, Plymouth Meeting Mall and Uniontown Mall). Total amounts expensed relating to leases were $4.8 million, $4.8 million and $4.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Minimum future lease payments due in each of the next five years and thereafter are as follows:

(in thousands of dollars) **For the Year Ended December 31,**	**Capital Leases**	**Operating Leases**	**Ground Leases**
2009	$ 174	$ 2,838	$ 987
2010		2,401	987
2011		2,027	987
2012		1,787	847
2013 and thereafter		2,796	48,689
Less: amount representing interest	(7)		
	$ 167	$ 11,849	$ 52,497

The Company had assets of $0.4 million and $0.6 million (net of accumulated depreciation of $3.3 million and $3.1 million, respectively) recorded under capital leases as of December 31, 2008 and 2007, respectively.

11. RELATED PARTY TRANSACTIONS

General

PRI provides management, leasing and development services for ten properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services was $1.0 million, $0.9 million and $0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, $0.3 million was due from the property-owning partnerships to PRI. Of this amount, approximately $0.2 million was collected subsequent to December 31, 2008.

The Company leases its principal executive offices from Bellevue Associates (the Landlord), an entity in which certain officers/trustees of the Company have an interest. Total rent expense under this lease was $1.6 million, $1.6 million and $1.5 million for the years ended December 31, 2008, 2007, and 2006, respectively. Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. The Company has the option to renew the lease for up to two additional five-year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, the Company has the right on one occasion at any time during the seventh lease year to terminate the office lease upon the satisfaction of certain conditions. Effective June 1, 2004, the Company s base rent is $1.4 million per year during the first five years of the office lease and $1.5 million per year during the second five years.

The Company uses an airplane in which Ronald Rubin owns a fractional interest. The Company paid $174,000, $35,000 and $38,000 in the years ended December 31, 2008, 2007 and 2006, respectively, for flight time used by employees exclusively for Company-related business.

As of December 31, 2008, nine officers of the Company had employment agreements with terms of one year that renew automatically for additional one-year terms. Their previous employment agreements provided for aggregate base compensation for the year ended December 31, 2008 of $3.4 million, subject to increases as approved by the Company s compensation committee in future years, as well as additional incentive compensation.

See Tax Protection Agreements in note 12.

Bala Cynwyd Associates, L.P.

In January 2008, the Company entered into a Contribution Agreement with Bala Cynwyd Associates, L.P. (BCA), City Line Associates, Ronald Rubin, George Rubin, Joseph Coradino, and two other individuals to acquire all of the partnership interests in BCA. The Company agreed to pay approximately $15.3 million for the BCA partnership interests over three years.

BCA entered into a tax deferred exchange agreement with the current owner of One Cherry Hill Plaza, an office building located within the boundaries of the Company s Cherry Hill Mall (the Office Building), to acquire title to the Office Building in exchange for an office building located in Bala Cynwyd, Pennsylvania owned by BCA.

Ronald Rubin, George Rubin, Joseph Coradino and two other individuals (collectively, the Individuals) owned 100% of a limited partnership that owned 50% of the partnership interests in BCA immediately prior to closing. Immediately prior to closing, BCA redeemed the other 50% of the partnership interest, which was held by a third party. At the initial closing in February 2008 under the Contribution Agreement and in exchange for a 0.1% general partner interest and 49.8% limited partner interest in BCA, the Company made a $3.9 million capital contribution to BCA. A second closing is expected to take place in March 2009 pursuant to a put/call arrangement, at which time the Company will acquire an additional 49.9% of the limited partner interest in BCA for $0.2 million in cash and OP Units valued in the first quarter of 2008 at approximately $3.6 million. A third closing is expected to occur pursuant to a put/call arrangement approximately one year after the second closing, at which time the Company will acquire the remaining interest in BCA for a nominal amount .

In accordance with the Company s Related Party Transactions Policy, a Special Committee consisting exclusively of independent members of the Company s Board of Trustees considered and approved the terms of the BCA transaction, subject to final approval by the Board of Trustees. The disinterested members of the Board of Trustees approved the transaction.

Subsequent to the first closing, PRI entered into a management agreement with BCA for the management of the Office Building.

Executive Separation

In 2006, the Company announced the retirement of Jonathan B. Weller, a Vice Chairman of the Company. In connection with Mr. Weller s retirement, the Company entered into a Separation of Employment Agreement and General Release (the Separation Agreement) with Mr. Weller. Pursuant to the Separation Agreement, Mr. Weller also retired from the Company s Board of Trustees and the Amended and Restated Employment Agreement by and between the Company and Mr. Weller dated as of January 1, 2004 was terminated. The Company recorded an expense of $4.0 million in connection with Mr. Weller s separation from the Company. The expense included executive separation cash payments made to Mr. Weller along with the acceleration of the deferred compensation expense associated with the unvested restricted shares and the estimated fair value of Mr. Weller s share of the 2005 2008 Outperformance Program (see note 9). Mr. Weller exercised his outstanding options in August 2006.

12. COMMITMENTS AND CONTINGENCIES

Development and Redevelopment Activities

In connection with its current ground-up development and its redevelopment projects, the Company has made contractual commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of December 31, 2008, the remainder to be paid (excluding amounts already accrued) against such contractual and other commitments was $86.7 million, which is expected to be financed through the Credit Facility or through various other capital sources.

Legal Actions

In the normal course of business, the Company has and may become involved in legal actions relating to the ownership and operation of its properties and the properties it manages for third parties. In management s opinion, the resolutions of any such pending legal actions are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations.

Environmental

The Company is aware of certain environmental matters at some of their properties, including ground water contamination and the presence of asbestos containing materials. The Company has, in the past, performed remediation of such environmental matters, and is not aware of any significant remaining potential liability relating to these environmental matters. The Company may be required in the future to perform testing relating to these matters. The Company does not expect these matters to have any significant impact on its liquidity or results of operations. However, the Company can make no assurances that the amounts reserved will be adequate to cover further environmental costs. The Company has insurance coverage for certain environmental claims up to $10.0 million per occurrence and up to $10.0 million in the aggregate.

Tax Protection Agreements

As part of the BCA transaction, the Company and PREIT Associates have agreed to indemnify the Individuals from and against certain tax liabilities resulting from a sale of the office building that was involved in the BCA transaction during the eight years following the initial closing.

In connection with the Merger, the Company entered into a tax protection agreement with Mark E. Pasquerilla and entities affiliated with Mr. Pasquerilla (the Pasquerilla Group). Under this tax protection agreement, the Company agreed not to dispose of certain protected properties acquired in the Merger in a taxable transaction until November 20, 2011 or, if earlier, until the Pasquerilla Group collectively owns less than 25% of the aggregate of the shares and OP Units that they acquired in the Merger. If the Company were to sell any of the protected properties during the first five years of the protection period, it would owe the Pasquerilla Group an amount equal to the sum of the hypothetical tax owed by the Pasquerilla Group, plus an amount intended to make the Pasquerilla Group whole for taxes that may be due upon receipt of such payments. From the end of the first five years through the end of the tax protection period, the payments are intended to compensate the affected parties for interest expense incurred on amounts borrowed to pay the taxes incurred on the sale. The Company paid $2,000 and $8,000 to the Pasquerilla Group in 2008 and 2007 pursuant to these agreements, respectively.

The Company has agreed to provide tax protection related to its acquisition of Cumberland Mall Associates and New Castle Associates to the prior owners of Cumberland Mall Associates and New Castle Associates, respectively, for a period of eight years following the respective closings. Ronald Rubin and George F. Rubin are beneficiaries of these tax protection agreements.

The Company did not enter into any other guarantees or tax protection agreements in connection with its merger, acquisition or disposition activities in 2008, 2007 and 2006.

13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following presents a summary of the unaudited quarterly financial information for the years ended December 31, 2008 and 2007:

For the Year Ended December 31, 2008

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter[(4)]	Total
Revenue from continuing operations	$ 115,350	$ 113,621	$ 115,155	$ 129,954	$ 474,080
Revenue from discontinued operations	$	$	$	$	$
Income from discontinued operations	$	$	$	$	$
Net (loss) income[(1)(2)]	$ (2,128)	$ (2,898)	$ (7,631)	$ 2,277	$ (10,380)
Net (loss allocable) income available to common shareholders[(1)(2)]	$ (2,128)	$ (2,898)	$ (7,631)	$ 2,277	$ (10,380)
Income from discontinued operations per share basic	$	$	$	$	$
Income from discontinued operations per share diluted	$	$	$	$	$
Net (loss) income per share basic	$ (0.06)	$ (0.08)	$ (0.20)	$ 0.05	$ (0.30)
Net (loss) income per share diluted	$ (0.06)	$ (0.08)	$ (0.20)	$ 0.05	$ (0.30)

For the Year Ended December 31, 2007

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter[(4)]	Total
Revenue from continuing operations	$ 113,640	$ 110,537	$ 112,269	$ 130,126	$ 466,572
Revenue from discontinued operations	$ 1,039	$ 15	$ 19	$	$ 1,073
Income (loss) from discontinued operations	$ 5,886	$ (14)	$ 18	$ (12)	$ 5,878
Net income[(3)]	$ 9,084	$ 3,875	$ 1,499	$ 8,703	$ 23,161
Net income available to common shareholders[(3)]	$ 5,681	$ 471	$ 13,712	$ 8,703	$ 28,567
Income from discontinued operations per share basic	$ 0.16	$	$	$	$ 0.16
Income from discontinued operations per share diluted	$ 0.16	$	$	$	$ 0.16
Net income per share basic	$ 0.15	$ 0.01	$ 0.35	$ 0.22	$ 0.73
Net income per share diluted	$ 0.15	$ 0.01	$ 0.35	$ 0.22	$ 0.73

(1) Includes gain on extinguishment of debt of approximately $29.3 million (before minority interest) (4th Quarter 2008).

(2) Includes impairment of assets of approximately $27.6 million (before minority interest) (4th Quarter 2008).

(3) Includes gains on sales of interests in real estate of approximately $2.1 million (before minority interest) (2nd Quarter 2007) and $0.2 million (before minority interest) (3rd Quarter 2007).

(4) Fourth Quarter revenue includes a significant portion of annual percentage rent as most percentage rent minimum sales levels are met in the fourth quarter.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

INVESTMENTS IN REAL ESTATE

As of December 31, 2008

(in thousands of dollars)

	Initial Cost of Land	Initial Cost of Building & Improvements	Cost of Improvements Net of Retirements	Balance of Land	Balance of Building & Improvements	Current Accumulated Depreciation Balance	Current Encumbrance	Date of Construction/ Acquisition	Life of Depreciation
Retail Properties:									
Beaver Valley Mall	$ 10,822	$ 42,877	$ 14,395	$ 10,550	$ 57,544	$ (13,748)	$ 44,672	2002	30
Capital City Mall	11,642	65,575	17,407	11,642	82,982	(14,579)	50,375	2003	40
Chambersburg Mall	9,503	26,218	6,271	9,642	32,350	(5,606)		2003	40
Cherry Hill Mall	29,938	185,610	188,546	48,366	355,728	(36,058)	253,813	2003	40
Christiana Center	12,829	27,041	1,065	12,829	28,106	(9,937)	45,000	1998	40
Commons at Magnolia	1,132	3,407	7,417	1,575	10,381	(3,437)		1999	40
Creekview	1,380	15,290	2,421	1,380	17,711	(6,520)	19,856	1998	40
Crest Plaza	242		16,267	242	16,267	(4,447)		1964	40
Crossroads Mall	5,054	22,496	6,754	5,627	28,677	(6,257)		2003	40
Cumberland Mall	8,711	43,889	13,620	9,747	56,473	(5,355)	44,688	2005	40
Dartmouth Mall	7,015	28,328	26,317	7,015	54,645	(21,840)	63,894	1998	40
Exton Square Mall	21,460	121,326	3,919	21,460	125,245	(19,614)	70,000	2003	40
Francis Scott Key Mall	9,786	47,526	21,114	9,992	68,434	(10,747)	55,000	2003	40
Gadsden Mall	8,842	42,681	8,578	8,842	51,259	(5,510)		2005	40
The Gallery at Market East	6,781	95,599	35,903	7,212	131,071	(11,345)		2003	40
Jacksonville Mall	9,974	47,802	18,832	9,974	66,634	(10,633)	56,265	2003	40
Logan Valley Mall	13,267	68,449	13,907	13,267	82,356	(16,193)	68,000	2003	40
Lycoming Mall	10,275	43,440	23,006	10,802	65,919	(10,240)		2003	40
Magnolia Mall	9,279	44,165	32,820	15,204	71,060	(18,918)	62,853	1998	40
Moorestown Mall	11,368	62,995	16,086	11,368	79,081	(17,439)	58,646	2003	40
Monroe Marketplace	12,308	11,251	31,450	12,936	42,073	(315)		2006	40
New River Valley Center	4,411	21,436	898	4,411	22,334	(1,175)		2005	40
New River Valley Mall	4,752	22,808	29,852	4,848	52,564	(8,774)		2003	40
Nittany Mall	6,064	30,283	6,427	5,146	37,628	(6,431)		2003	40
North Hanover Mall	4,565	20,990	29,411	4,689	50,277	(5,502)		2003	40
Northeast Tower Center	8,265	22,066	3,300	8,265	25,366	(6,666)		1998	40
Orlando Fashion Square		108,470	5,589		114,059	(12,599)		2004	40
Palmer Park Mall	3,747	18,805	11,960	3,747	30,765	(10,543)	15,674	2003	40
Patrick Henry Mall	16,074	86,643	36,556	16,397	122,876	(21,652)	96,734	2003	40
Paxton Towne Centre	15,719	36,438	4,024	15,719	40,462	(12,680)	54,000	1998	40
Phillipsburg Mall	7,633	38,093	7,293	7,791	45,228	(7,479)		2003	40
Plymouth Meeting Mall	29,265	58,387	65,110	29,953	122,809	(14,519)		2003	40
The Mall at Prince Georges	13,066	57,686	29,336	13,066	87,022	(26,054)	150,000	1998	40
South Mall	7,369	20,720	4,708	7,990	24,807	(4,172)		2003	40
Sunrise Plaza	12,885	16,114	514	11,582	17,931	(829)		2005	40
Uniontown Mall		30,761	7,242		38,003	(6,685)		2003	40
Valley Mall	13,187	60,658	17,485	13,193	78,137	(14,965)	89,166	2003	40
Valley View Mall	9,880	46,817	10,509	9,880	57,326	(9,082)	34,796	2003	40
Viewmont Mall	12,504	61,519	13,232	12,606	74,649	(11,371)	48,000	2003	40
Voorhees Town Center	2,506	7,808	60,675	8,822	62,168	(6,049)		2003	40
Washington Crown Center	5,460	27,136	7,645	5,580	34,661	(9,769)		2003	40
Willow Grove Park	26,748	131,189	54,807	37,193	175,551	(34,011)	153,338	2003	40
Wiregrass Commons	5,103	28,759	16,543	12,721	37,684	(5,543)		2003	40
Woodland Mall	35,540	124,504	22,622	20,012	162,654	(17,234)	156,500	2005	40
Wyoming Valley Mall	14,153	73,035	17,263	13,346	91,105	(14,310)	65,000	2003	40

	Initial Cost of Land	Initial Cost of Building & Improvements	Cost of Improvements Net of Retirements	Balance of Land	Balance of Building & Improvements	Current Accumulated Depreciation Balance	Current Encumbrance	Date of Construction/ Acquisition	Life of Depreciation
Development Properties:									
White Clay Point	31,000	4		31,000	4			2005	N/A
Pitney Road Plaza	8,165	805		8,165	805			2008	N/A
Springhills	21,555	9,827		21,883	9,500			2006	N/A
Investments In Real Estate	$ 531,224	$ 2,207,727	$ 969,097	$ 567,677	$ 3,140,371	$ (516,832)	$ 1,756,270		

The aggregate cost basis and depreciated basis for federal income tax purposes of the Company s investment in real estate was approximately $3,864.4 million and $3,108.1 million, respectively, at December 31, 2008 and $3,526.5 million and $2,836.7 million, respectively, at December 31, 2007. The changes in total real estate and accumulated depreciation for the years ended December 31, 2008, 2007, and 2006 are as follows:

(in thousands of dollars)	**For the Year Ended December 31,**		
Total Real Estate Assets:	**2008**	**2007**	**2006**
Balance, beginning of year	$ 3,367,294	$ 3,133,709	$ 2,877,207
Acquisitions	23,453	14,727	109,032
Improvements and development	337,385	240,519	159,903
Impairment of assets	(19,215)		
Dispositions	(869)	(21,661)	(12,433)
Balance, end of year	$ 3,708,048	$ 3,367,294	$ 3,133,709
Investments in real estate	$ 3,708,048	$ 3,367,294	$ 3,132,370
Investments in real estate included in assets held-for-sale			1,339
	$ 3,708,048	$ 3,367,294	$ 3,133,709

(in thousands of dollars)	**For the Year Ended December 31,**		
Accumulated Depreciation:	**2008**	**2007**	**2006**
Balance, beginning of year	$ 401,502	$ 306,893	$ 220,788
Depreciation expense	115,590	97,957	90,511
Dispositions	(260)	(3,348)	(4,406)
Balance, end of year	$ 516,832	$ 401,502	$ 306,893

Exhibit Index

Exhibit Number	**Description**
23.1	Consent of KPMG LLP (Independent Registered Public Accounting Firm).
31.1	Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.