

PRICE LEGACY CORP
Form 10-K
March 15, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the year period ended December 31, 2003

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

Commission file number 0-20449

PRICE LEGACY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

33-0628740

(I.R.S. Employer Identification No.)

17140 Bernardo Center Drive, Suite 300, San Diego, California 92128

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: 858-675-9400

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

None

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

Common Stock \$.0004 Par Value

8³/₄% Series A Cumulative Redeemable Preferred Stock \$.0001 Par Value

6.82% Series 1 Cumulative Redeemable Preferred Stock \$.0001 Par Value

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

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

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant as of June 30, 2003 was \$89,684,190 based on the last reported sale price of \$3.75 per share on June 30, 2003.

The number of outstanding shares of the registrant's common stock as of March 12, 2004 was 36,278,344.

DOCUMENTS INCORPORATED BY REFERENCE: Certain information called for by Part III of the Form 10-K will either be filed with the Commission under Regulation 14A under the Securities Exchange Act of 1934 or by amendment to this Form 10-K, in either case on or before April 29, 2004.

PRICE LEGACY CORPORATION Annual Report on Form 10-K For the Year Ended December 31, 2003

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 which provides a "safe harbor" for these types of statements. You can identify these forward-looking statements by forward-looking words such as "believe," "may," "could," "will," "estimate," "continue," "anticipate," "intend," "seek," "plan," "expect," "should," "would" and similar expressions in this Annual Report on Form 10-K. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about Price Legacy Corporation, including, among other things:

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the effect of economic, credit and capital market conditions in general and on real estate companies in particular, including changes in interest rates

our ability to compete effectively

developments in the retail industry

the financial stability of Price Legacy's tenants, including our reliance on major tenants

our ability to successfully complete real estate acquisitions, developments and dispositions

the financial performance of our properties, joint ventures and investments

government approvals, actions and initiatives, including the need for compliance with environmental requirements

our ability to continue to qualify as a real estate investment trust, or REIT

The factors identified above are believed to be some, but not all, of the important factors that could cause actual events and results to be significantly different from those that may be expressed or implied in any forward-looking statements. Any forward-looking statements should also be considered in light of the information provided in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In this Form 10-K:

"Company," "Price Legacy," "we," "our," and "us" means Price Legacy Corporation and its subsidiaries

"PEI" means Price Enterprises, Inc.

"Excel Legacy" means Excel Legacy Corporation

"REIT" means real estate investment trust

"GLA" means gross leasable area

"FFO" means funds from operations

"TRS" means Taxable REIT Subsidiary

PART I

ITEM 1 Business

Formation of the Company and Subsequent Transactions

Price Legacy was formed in September 2001 from the merger of PEI and Excel Legacy (the Merger). In 1994, PEI spun off from Costco Companies, Inc., formerly Price/Costco, Inc. PEI became a self-administered, self-managed REIT in September 1997, which acquires, operates and develops open-air retail properties throughout the United States. In 1998, Excel Legacy spun off from Excel Realty Trust, Inc., a REIT, to pursue a wider variety of real estate opportunities including acquiring, developing and managing mixed-use and retail properties and real estate related operating companies throughout the United States and Canada. In connection with the Merger, Excel Legacy became a wholly owned subsidiary of PEI, and PEI changed its name to Price Legacy Corporation.

Price Legacy continues to operate as a REIT focused on open-air retail properties throughout the United States. Our current property portfolio primarily consists of open-air shopping centers leased to retail tenants. At December 31, 2003, we owned 40 commercial real estate properties, two of which were held through majority-owned joint ventures, and two properties subject to ground leases. We also owned six properties with parcels of land held for development or sale. In addition to the above property portfolio, we held 50-55% ownership interests in two joint ventures. In total, we held an interest in 48 properties.

Our subsidiaries include Excel Legacy Holdings, Inc. which acquired certain assets of Excel Legacy after the Merger and elected to be treated as a TRS. Other than certain activities related to lodging and health care facilities, a TRS may generally engage in any business. As a regular C corporation, a TRS is subject to federal income tax and state and local income taxes, where applicable.

On September 22, 2003, we issued a press release announcing that we were pursuing a series of transactions intended to result in a significant simplification of our capital structure. On or about February 11, 2004, we mailed to our stockholders definitive proxy materials and to our Series A Preferred Stockholders exchange offer materials related to our previously announced recapitalization transaction (the Recapitalization Transaction).

The Recapitalization Transaction consisted of (1) an exchange offer (the Series A Exchange Offer) in which we offered to exchange, at the option of the holder, either shares of our common stock or shares of our newly designated Series 1 Preferred Stock for all outstanding shares of our Series A Preferred Stock; (2) exchange transactions with the holders of all of our outstanding Series B Preferred Stock in which we exchanged 8,521,747 shares of our common stock (after giving effect to the reverse stock split described below) for all of our outstanding shares of Series B Preferred Stock; and (3) an amendment and restatement of our charter to, among other things, (A) effect a 1-for-4 reverse stock split of our common stock, (B) designate and establish the terms of our Series 1 Preferred Stock, (C) eliminate the Series B Preferred Stock following its exchange for common stock, (D) change the manner in which our directors are elected so that the holders of common stock and Series A Preferred Stock, but not the holders of Series 1 Preferred Stock, voting together as a single class, are entitled to elect all of our directors and (E) change our authorized capital stock to provide sufficient shares to complete the Recapitalization Transaction.

Our stockholders approved the Recapitalization Transaction at a special meeting of stockholders held on March 11, 2004, and the Recapitalization Transaction was completed on March 12, 2004. Based on a preliminary count provided by Mellon Investor Services LLC, the exchange agent for the Series A Exchange Offer, approximately 20,942,101 shares of Series A Preferred Stock were tendered for a total of approximately 18,899,765 shares of common stock (on a post 1-for-4 reverse split basis) and approximately 2,942,325 shares of Series 1 Preferred Stock.

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On March 12, 2004, we filed Articles of Amendment and Restatement in the State Department of Assessments and Taxation of Maryland effecting the 1-for-4 reverse stock split of our common stock and the other amendments to our charter contemplated by the Recapitalization Transaction.

As a result of the Recapitalization Transaction, we expect to issue a total of approximately 27,421,511 shares of common stock and approximately 2,942,325 shares of Series 1 Preferred Stock and we expect to retire approximately 20,942,101 shares of Series A Preferred Stock and 24,523,015 shares of Series B Preferred Stock. After giving effect to the Recapitalization Transaction, we expect to have outstanding approximately 36,278,344 shares of common stock, approximately 6,492,065 shares of Series A Preferred Stock, and approximately 2,942,325 shares of Series 1 Preferred Stock. These share amounts are subject to adjustment as a result of final verification and confirmation of the shares tendered in the Series A Exchange Offer and elimination of fractional share interests created as a result of the 1-for-4 reverse stock split.

In addition, effective March 15, 2004, our common stock (on a post 1-for-4 reverse split basis) and Series 1 Preferred Stock began trading on the Nasdaq National Market under the symbols PLRE and PLREP, respectively, and our Series A Preferred Stock began trading on the Nasdaq National Market under the new symbol PLREO.

Overview of the Company's Business

Our current property portfolio consists primarily of open-air shopping centers leased to major retail tenants including Costco, The Home Depot, The Sports Authority, Marshall's, Lowe's, AMC Theaters, and Wal-Mart. We receive approximately 31% of our annual minimum rents from tenants with investment grade credit ratings. National tenants, which we define as tenants located in at least three states, contribute approximately 79% of annual minimum rents.

For a description of our properties and of material developments during the year regarding these investments and our Company as a whole please refer to "Item 2 Properties" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" located elsewhere in this Form 10-K.

Our website address is www.PriceLegacy.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material has been electronically filed with or furnished to the Securities and Exchange Commission.

Our business strategy is to enhance the value and operating income of our portfolio by, among other things, leasing vacancies in our existing properties, acquiring new investment properties and completing the development of existing properties. In making new real estate investments, we emphasize acquiring well-located income-producing open-air shopping centers, principally occupied by national and credit rated tenants with attractive yields and potential for increases in income and capital appreciation. We will also, from time to time, consider disposing or exchanging existing investments in order to improve our investment portfolio or increase our funds from operations. We continuously evaluate our properties and review potential strategies of repositioning or redeveloping our properties in order to maximize FFO and enhance property values. Our investment and portfolio management goal is maximizing long-term FFO.

We generally provide property management for our properties. Self-management enables us to more closely control leasing and management of our property. Internal property management also provides opportunities for operating efficiencies by enabling us to acquire additional properties without proportionate increases in property management expenses. Our property management program is implemented by property management and leasing professionals located in offices in San Diego, CA, Scottsdale, AZ, Sterling, VA, and Hollywood, FL.

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Our operating results are influenced by:

performance and continuing viability of the existing tenants in our current real estate investment portfolio

the existence of replacement tenants

competition from other retail centers and other forms of retail shopping, including internet commerce

the level of operating and capital expenses, including interest rates

Our growth depends on:

increased returns from our existing real estate investment properties

availability of attractive new real estate investment opportunities

cost of capital related to existing and new real estate investments

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future income on projects currently under development and assets not currently generating income

additional income on recently completed but not yet stabilized development projects

Real estate industry cycles heavily influence our performance as a REIT. We discuss this further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

Competition

We compete with a wide variety of corporate and individual real estate developers and REITs which have similar investment objectives and may have greater financial resources, larger staffs or longer operating histories than us.

We also compete with other property owners to obtain tenants for our retail shopping center properties. Our competitive advantages are primarily based on significant customer traffic generated by our national and regional tenants, competitive lease terms, relatively high occupancy rates, and relatively low occupancy costs associated with open-air centers. The closing or relocation of any anchor tenant could have a material adverse effect on the operation of a shopping center. We discuss this further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

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Significant Tenants

Our ten largest tenants accounted for approximately 37% of our total GLA and approximately 34% of our total annual minimum rent revenues. The following table provides certain information about these tenants as of December 31, 2003 (dollars in thousands):

Tenant	Number of Leases	Area Under Lease (sq. ft)	Percent of GLA Under Lease	Annual Minimum Rent	Percent of Total Annual Minimum Rent
Costco	4	618,192	6.9%	\$ 8,750	8.9%
The Home Depot	4	472,163	5.3%	4,164	4.2%
The Sports Authority	6	266,472	3.0%	3,606	3.7%
Marshall's	6	206,203	2.3%	3,166	3.2%
Lowe's	4	501,054	5.6%	2,583	2.6%
AMC Theaters	2	122,557	1.4%	2,567	2.6%
Wal-Mart	3	480,738	5.4%	2,243	2.3%
AT&T	1	126,005	1.4%	2,208	2.3%
K-Mart	3	351,775	3.9%	2,080	2.1%
Ross	7	197,777	2.2%	2,069	2.1%
	40	3,342,936	37.4%	33,436	34.0%

It is not uncommon for economic conditions, market surpluses of retail space, internet purchasing and competitive pressures to negatively impact retail operators' financial results, especially smaller retail operators. When a tenant files for bankruptcy, we assess our alternatives for the potentially available space. Kmart, our ninth largest tenant, filed a voluntary petition for reorganization under Chapter 11 of the U. S. Bankruptcy Code on January 22, 2002. In February 2002, Kmart rejected the lease on a vacant Builder's Square at one of our properties which we subsequently leased to another tenant. During 2003, Kmart also rejected the lease at our Westbury, NY property. A new lease has been signed with a major tenant for this space, with rent scheduled to commence in May 2004. We discuss the impact of bankruptcies further in "Factors That May Affect Future Performance" located elsewhere in this Form 10-K.

Environmental Matters

Our properties are affected by federal, state and local environmental laws. These laws relate to the discharge of materials and protection of the environment. We have made, and intend to continue to make, necessary expenditures for compliance with applicable laws. The properties

listed below have required remediation and clean-up of certain past industrial activities:

Pentagon City, VA

Signal Hill, CA

Expenses related to monitoring and cleaning up these properties have not been material to our operations. While we cannot predict with certainty the future costs of such clean up activities, or operating costs for environmental compliance, we do not believe they will have a material effect on our capital expenditures, earnings or competitive position.

Seasonality

Our real estate operations generally are less subject to seasonal fluctuations as our primary focus centers on tenants who offer basic goods.

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Corporate Headquarters

Our headquarters are located at 17140 Bernardo Center Drive, Suite 300, San Diego, CA 92128, and we believe that our current facilities meet our expected requirements over the next 12 months. Our telephone number is (858) 675-9400. As of March 1, 2004, we and our consolidated subsidiaries had approximately 133 employees.

Factors That May Affect Future Performance

Real property investments are subject to varying degrees of risk that may affect the performance and value of our properties. Our revenue and the performance and value of our properties may be adversely affected by a number of factors, including:

changes in the national, regional and local economic climates

local conditions such as an oversupply of space or a reduction in demand for similar or competing properties in the area

changes in interest rates which may render the sale and/or refinancing of a property difficult or unattractive

changes in consumer spending patterns

the attractiveness of our properties to tenants

competition from other available space

our ability to provide adequate maintenance and insurance

increased operating costs

increases in interest rates on our variable rate debt

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In addition, some significant operating expenses associated with our properties, such as debt payments, maintenance, tenant improvement costs and taxes, generally are not reduced when gross income from properties is reduced. If our properties do not generate revenue sufficient to meet operating expenses, we may have to borrow additional amounts to cover costs, which could harm our ability to make distributions to our stockholders.

Significant competition from developers, owners and operators of real estate properties may adversely affect the success of our business. We compete in the acquisition of real estate properties with over 200 publicly-traded REITs as well as other public and private real estate investment entities, including mortgage banks and pension funds, and other institutional investors, as well as individuals. Competition from these entities may impair our financial condition and materially harm our business by reducing the number of suitable investment opportunities offered to us and increasing the bargaining power of prospective sellers of property, which often increases the price necessary to purchase a property. Many of our competitors in the real estate sector are significantly larger than us and may have greater financial resources and more experienced managers. In addition, a large portion of our developed properties will be located in areas where competitors maintain similar properties. We will need to compete for tenants based on rental rates, attractiveness and location of properties, as well as quality of maintenance and management services. Competition from these and other properties may impair our financial condition and materially harm our business by:

interfering with our ability to attract and retain tenants

increasing vacancies, which lowers market rental rates and limits our ability to negotiate favorable rental rates

impairing our ability to minimize operating expenses

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Developments in the retail industry could adversely affect our ability to lease space in our shopping centers, which would harm our business. We derive a substantial portion of our income from tenants in the retail industry. The market for retail space and the general economic or local conditions of the retail industry can significantly affect our financial performance. A number of recent developments have heightened competitive pressures in the market for retail space, including:

consolidation among retailers

the financial distress of large retailers in some markets, including the bankruptcy of some retailers

a proliferation of new retailers

a growing consumer preference for value-oriented shopping alternatives, such as internet commerce

an oversupply of retail space in some areas of the country

As a result of these developments, many companies in the retail industry have encountered significant financial difficulties. Because we have no control over the occurrence of these developments, we cannot make any assurance that our business or financial results will not be adversely affected by these developments and the competitive pressures they create.

We rely on Costco for 8.9% of our annual minimum rent revenue, and any financial difficulties faced by this or any other significant tenant may harm our business and impair our stock price. Our financial position, results of operations and ability to make distributions to our stockholders may be adversely affected by financial difficulties experienced by any of our major tenants, including Costco, Home Depot, and The Sports Authority. Although failure on the part of a tenant to materially comply with the terms of a lease, including failure to pay rent, would give us the right to terminate the lease, repossess the property and enforce the payment obligations under the lease, we could experience substantial delays and costs in doing so. We may not be able to enforce the payment obligations against the defaulting tenant, find another tenant or, if another tenant were found, enter into a new lease on favorable terms. Our largest tenant is Costco, which accounted for approximately 8.9% of our total annual minimum rent revenue as of December 31, 2003. In addition to our four properties where Costco is the major tenant,

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Costco warehouses are adjacent to an additional 9 of our properties. If Costco or any other major tenant chooses to terminate or not to renew its lease, our financial condition and business could be materially harmed.

We may not be able to collect balances due from a tenant in bankruptcy, which may harm our business. The bankruptcy or insolvency of a significant tenant or a number of smaller tenants may have an adverse impact on the properties affected and on the income produced by such properties. A bankruptcy filing by or relating to one of our tenants would bar all efforts by us to collect pre-bankruptcy debts from that tenant or their property, unless we receive an order permitting us to do so from the bankruptcy court. The bankruptcy of a tenant could delay our efforts to collect past due balances under the relevant leases and could ultimately preclude full collection of these sums. Under bankruptcy law, a tenant has the option of assuming (continuing) or rejecting (terminating) any unexpired lease. If a tenant in bankruptcy assumes its lease with us, the tenant must cure all defaults under the lease and provide us with adequate assurance of its future performance under the lease. If a lease is rejected by a tenant in bankruptcy, we would (absent collateral securing the claim) have only a general unsecured claim for damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if we recover any at all, which may adversely affect our operating results and financial condition.

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Kmart, previously our third largest tenant, filed for Chapter 11 bankruptcy protection in January 2002. We had four Kmart store leases that represented approximately 4.2% of our annualized base rental income at December 31, 2002. On April 23, 2003, Kmart's plan of reorganization was approved, and on May 6, 2003, Kmart emerged from bankruptcy, affirming three of these leases and rejecting the lease at our Westbury, NY property effective April 30, 2003. Minimum rents for 2002 related to our Westbury, NY property lease were \$2.0 million. A new lease for this property has been signed with a major national tenant, with rent scheduled to commence in May 2004. If the new rental rates for this property are significantly lower than Kmart's previous rent, our financial condition and business could be materially harmed. In addition, there can be no assurance that Kmart will not experience further financial difficulties in the future. If Kmart or any other significant tenant of ours were to experience financial difficulties in the future, it could lead to additional bankruptcy filings and the rejection of one or more of our additional leases, which in turn could result in a significant decrease in our rental revenue, funds from operations and funds available for distribution to stockholders if we are unable to re-lease promptly or if any new rental rates are significantly lower than the current rent.

Termination of a lease by Costco or other significant tenants may allow some tenants to reduce or terminate their leases. If Costco or other significant tenants were to terminate a lease with us or a lease for space adjacent to one or more of our properties, some of our other tenants at these properties would have rights to reduce their rent or terminate their leases. In addition, tenants at these properties, including those with termination rights, could elect not to extend or renew their lease at the end of the lease term. If any of these events occur, our financial condition and business could be materially harmed.

Our financial performance depends on regional economic conditions since many of our properties and investments are located in California, Arizona, and Florida. Our properties and real estate related investments include 32 properties located in three states: 14 in California, nine in Arizona, and nine in Florida. With such a large number of properties and real estate related investments in these states, we may be exposed to greater economic risks than if they were located in several geographic regions. Our revenue from, and the value of, the properties and investments located in these states may be affected by a number of factors, including an oversupply of, or reduced demand for, real estate properties and downturns in the local economic climate caused by high unemployment, business downsizing, industry slowdowns, changing demographics and other factors. A general downturn in the economy or real estate conditions in California, Arizona, or Florida could impair our financial condition and materially harm our business. Further, due to the relatively high cost of real estate in these states, the real estate market in these regions may be more sensitive to fluctuations in interest rates and general economic conditions than other regions of the United States. We do not have any limitations or targets for the concentration of the geographic location of our properties and, accordingly, the risks associated with this geographic concentration will increase if we acquire additional properties in these states.

Our income depends on rental income from real property. The majority of our income is derived from rental income from real property. Accordingly, our income and funds available for distribution would be adversely affected if a significant number of our tenants were unable to meet their obligations to us or if we were unable to lease a significant amount of space in our properties on economically favorable lease terms. We cannot make any assurance that any tenant whose lease expires in the future will renew its lease or that we will be able to re-lease space on economically advantageous terms, if at all. In addition, our ability to lease or re-lease vacant space will be affected by many factors, including the existence of covenants typically found in shopping center tenant leases, such as those requiring the use of space at the shopping center not to be competitive with another tenant. Our ability to lease or re-lease our properties may cause fluctuations in our cash flow, potentially affecting the cash available for distributions to stockholders.

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Illiquidity of real estate investments may make it difficult for us to sell properties in response to market conditions. Equity real estate investments are relatively illiquid and therefore will tend to limit our ability to vary our portfolio promptly in response to changing economic or other conditions. To the extent the properties are not subject to triple net leases, some significant expenditures such as real estate taxes and maintenance costs are generally not reduced when circumstances cause a reduction in income from the investment. Should these events occur, our income and funds available for distribution could be adversely affected. In addition, REIT requirements may subject us to confiscatory taxes on gain recognized from the sale of property if the property is considered to be held primarily for sale in the ordinary course of our trade or business. To prevent these taxes, we may comply with safe harbor rules relating to the number of properties sold in a year, how long we owned the properties, their tax bases and the cost of improvements made to those properties. However, we cannot make any assurance that we will be able to successfully comply with these safe harbors and, in the event that compliance is possible, the safe harbor rules may restrict our ability to sell assets in the future.

Our substantial leverage may be difficult to service and could adversely affect our business. As of December 31, 2003, we had outstanding borrowings of approximately \$564.5 million, requiring an estimated annual debt service of approximately \$39.0 million. In addition, we have guaranteed \$51.7 million in debt not on our balance sheet. We are exposed to the risks normally associated with debt financing, which may materially harm our business, including the following:

our cash flow may be insufficient to meet required payments of principal and interest on borrowings and this insufficiency may leave us with insufficient cash resources to pay operating expenses

we may not be able to refinance debt at maturity

if refinanced, the terms of refinancing may not be as favorable as the original terms of the debt

Our credit facility requires us to comply with specified financial covenants, the most restrictive of which relate to fixed charge coverage and leverage. Covenants in some of our construction loans are also tied to our credit facility. We were in compliance with all covenants in our credit facility at December 31, 2003, and are closely monitoring our operating results in 2004 as they relate to compliance with such covenants, in particular fixed charge coverage and leverage. If we are unable to satisfy any of these covenants, we would need to obtain waivers from our lenders. There can be no assurance that any such waivers would be forthcoming. Any violation that is not waived could result in an event of default, allowing the lenders to declare all amounts outstanding to be immediately due and payable, which could have a material adverse effect on our business and financial condition.

Rising interest rates may adversely affect our cash flow and business. We have \$248.4 million in debt which bears interest at variable rates. Variable rate debt creates higher debt payments if market interest rates increase. We may incur additional debt in the future that also bears interest at variable rates. Higher debt payments as a result of an increase in interest rates could adversely affect our cash flows, cause us to default under some debt obligations or agreements, and materially harm our business.

We face risks associated with our equity investments in and with, or loans to, third parties because of our lack of control over the underlying assets that secure the loans. As part of our growth strategy, we may invest in shares of REITs or other entities that invest in real estate assets. In these cases, we will be relying on the assets, investments and management of the REIT or other entity in which we invest. These entities and their properties will be exposed to the risks normally associated with the ownership and operation of real estate. We may partner or joint venture with or make loans to other parties developing real estate and related assets. In these cases, we will not be the only entity making decisions

relating to the property, partnership, joint venture or other entity. Risks associated with investments in, or loans to, partnerships, joint ventures or other entities include:

the possibility that our partners or borrowers might experience serious financial difficulties or fail to fund their share of required investment contributions or pay their obligations under our loans

our partners or borrowers might have economic or other business interests or goals which are inconsistent with our business interests or goals, resulting in impasse or decisions which are contrary to our business interests or goals

our partners or borrowers may take action contrary to our instructions or requests and adverse to our policies and objectives, including our policy with respect to maintaining our qualification as a REIT

the possibility that a third-party lender senior to us could take actions to foreclose upon its lien and jeopardize the repayment of our loan

the possibility that a borrower's inability to obtain the entitlements with respect to a development property or other related asset could delay or prevent the repayment of our loan

the possibility that the collateral securing a loan made by us may not have a value equal to the outstanding amount of the loan to which the collateral relates, and that contractual provisions or legal limitations may limit our ability to seek recourse against other assets in order to satisfy any deficiency

Any substantial loss or action of this nature could potentially harm our business or jeopardize our ability to qualify as a REIT. In addition, we may in some circumstances be liable for the actions of our third-party partners, co-venturers or borrowers.

We could incur significant costs and expenses related to environmental problems. Under various federal, state and local laws and regulations, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of on real property, may be liable for the costs of investigating and remediating these substances on or under the property. These laws often impose liability without regard to whether the owner or operator of the property was responsible for or even knew of the presence of the hazardous substances. The presence of or failure to properly remediate hazardous or toxic substances may impair our ability to rent, sell or borrow against a property. As an owner and operator of property and as a potential arranger for hazardous substance disposal, we may be liable under these laws and regulations for removal of remediation costs, governmental penalties, property damage, personal injuries and related expenses.

The costs of compliance with regulatory requirements, including the Americans with Disabilities Act, could adversely affect our business. Our properties will be subject to various federal, state and local regulatory requirements, including the Americans with Disabilities Act of 1990, which requires all public accommodations and commercial facilities to meet federal requirements relating to access and use by persons with disabilities. Compliance with the Americans with Disabilities Act requirements could involve removal of structural barriers from disabled persons' entrances on our properties. Other federal, state and local laws may require modifications to or restrict further renovations of our properties to provide this access. Noncompliance with the Americans with Disabilities Act or related laws or regulations could result in the United States government imposing fines or private litigants being awarded damages against us, or could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. If we incur these costs and expenses, our financial condition and ability to make distributions to our stockholders could be impaired. In addition, we cannot be assured that regulatory requirements will not be changed or that new regulatory requirements will not be imposed that would require significant unanticipated expenditures by us or our

tenants. Unexpected expenditures could adversely affect our net income and cash available for distributions to our stockholders.

Terrorism and the uncertainty of war may adversely affect our business. Terrorist attacks and other acts of violence or war may affect our operations and profitability, the market in which we operate, and the markets on which our stock trades. The potential near-term and long-term effect these attacks may have on our customers, the market for our services, the market for our stock and the U.S. economy are uncertain. The consequences of any terrorist attacks, or any armed conflicts which may result, are unpredictable and could materially harm our business and impair the value of our stock. In addition, the aftermath of the September 11, 2001, attacks has resulted in higher operating costs, including insurance premiums, for some of our properties due to heightened security measures.

The success of our business depends on the services provided by our key personnel, the loss of whom could harm our business. The success of our business depends to a large extent on the contributions and performance of our senior management team for strategic business direction and real estate experience. In October 2003, Gary B. Sabin, former Co-Chairman and Chief Executive Officer, Richard B. Muir,

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former Vice-Chairman and President of our Excel Legacy subsidiary, Graham R. Bullick, Ph.D., former President and Chief Operating Officer, and S. Eric Ottesen, former Senior Vice President, General Counsel and Secretary resigned from Price Legacy. Jack McGrory, Chairman of Price Legacy, was appointed to the additional positions of President and Chief Executive Officer, and Robert Siordia was appointed Chief Operating Officer. Jeffrey R. Fisher was appointed Chief Financial Officer in January 2004, replacing James Y. Nakagawa. Other than employment agreements with Messrs. Siordia and Fisher, John Visconsi, Senior Vice President of Asset Management, and Susan Wilson, Senior Vice President of Real Estate Development, we do not have employment agreements with or key-man life insurance for any of our senior management. If we lose the services of any members of our senior management, our business and future development could be materially harmed.

A small number of stockholders can exert significant influence over our company, which could make it difficult for us to complete some corporate transactions without their support, which could depress the price of our stock. Holders of our common stock and Series A Preferred Stock generally vote together on all matters submitted to our stockholders for approval. Each share of common stock is entitled to one vote and each share of Series A Preferred Stock is entitled to one-tenth ($1/10$) of one vote. Pursuant to its terms, shares of Series 1 Preferred Stock do not have the right to vote on matters submitted to our stockholders for approval.

Sol Price, Robert E. Price and parties affiliated with them, including The Price Group, currently beneficially own an aggregate of approximately 15,228,700 shares of common stock, which represent approximately 42.0% of our outstanding common stock and 41.2% of the voting power of our capital stock with respect to matters submitted to our stockholders for approval. In addition, The Price Group holds a warrant to purchase an additional 58,419 shares of common stock.

The 520 Group, LLC currently beneficially owns an aggregate of approximately 9,043,297 shares of common stock, which represent approximately 24.9% of our outstanding common stock and 24.5% of the voting power with respect to matters submitted to our stockholders for approval. In addition, The 520 Group holds a warrant to purchase an additional 625,000 shares of common stock.

Together, these parties will have significant influence over matters submitted to our stockholders for approval, and will have the ability to influence some corporate transactions, which may delay, discourage, deter or prevent a change of control and may make some transactions more difficult or impossible to complete without their support. The ability of these stockholders to assert this significant influence may depress the price of our stock.

Our charter contains anti-takeover provisions which may limit the ability of a third party to acquire control and may prevent stockholders from receiving a premium for our shares. Some of the provisions of

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our charter and bylaws could delay, discourage, deter or prevent an acquisition of our business at a premium price and could make removal of our management more difficult. These provisions could reduce the opportunities for our stockholders to participate in tender offers, including tender offers that are priced above the then-current market price of our stock. In particular, our charter permits our Board of Directors to issue shares of preferred stock in one or more series without stockholder approval, which could, depending on the terms of the preferred stock, delay, discourage, deter or prevent a change in control of our company. In addition, provisions of the Maryland General Corporation Law imposes restrictions on mergers and other business combinations between us and any holder of 10% or more of the voting power of our outstanding shares. Although our Board of Directors has adopted a resolution opting out of these provisions, the Board of Directors could alter, amend, or repeal that resolution, so that these provisions would then again be applicable.

REIT rules limit the amount of cash we will have available for other business purposes, including amounts to fund future growth, and could require us to borrow funds or liquidate investments on a short-term basis in order to comply with the REIT distribution requirement. To qualify as a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders (determined without regard to the dividends paid deduction and excluding capital gains), and we are subject to tax to the extent we fail to distribute at least 100% of our REIT taxable income. This distribution requirement will limit our ability to accumulate capital for other business purposes, including amounts to fund future growth. While we expect our cash flow from operations to generally be sufficient in both the short and long term to fund our operations, this distribution requirement could cause us:

to sell assets in adverse market conditions

to distribute amounts that represent a return of capital

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to distribute amounts that would otherwise be spent on future acquisitions, unanticipated capital expenditures, development of new projects or repayment of debt

to borrow funds, issue capital stock or sell assets on a short-term basis

In addition, from time to time, we may not have sufficient cash or other liquid assets to meet this distribution requirement due to differences in timing between the recognition of taxable income and the actual receipt of cash.

Our charter contains restrictions on the ownership and transfer of our capital stock. Due to limitations on the concentration of ownership of stock of a REIT imposed by the Internal Revenue Code, our charter prohibits any stockholder from (1) actually or beneficially owning more than 5% of our issued and outstanding capital stock and (2) actually or constructively owning more than 9.8% of our issued and outstanding capital stock, except for stockholders who have received a waiver from these ownership limits from our board. These ownership limits also apply separately to each class of our preferred stock, including the Series A Preferred Stock and the Series B Preferred Stock, and if and when issued, the Series 1 Preferred Stock. Our charter also prohibits anyone from buying shares if the purchase would result in losing our REIT status. This could happen if a share transaction results in

fewer than 100 persons owning all of our shares

five or fewer persons owning more than 50% of the value of our shares

our company having a related party tenant

If a stockholder acquires shares in violation of the charter by way of transfer or otherwise, the shares which cause the owner to violate the ownership limitations will be automatically transferred to a trust for the benefit of a qualified charitable organization. Following such transfer, the stockholder will have no right to vote these shares or be entitled to dividends or other distributions with respect to these shares. Within 20 days after receiving notice from us of the transfer of shares to the trust, the

trustee of the trust will sell the excess shares and generally will distribute to such stockholder an amount equal to the lesser of the price paid by the stockholder for the excess shares (except in the case of a gift or similar transfer, in which case, an amount equal to the market price) or the sale proceeds received by the trust for the shares.

If we fail to qualify as a REIT under the Code, that failure could materially harm our business. We believe that we are organized and operate in a manner that allows us to qualify for taxation as a REIT under the Internal Revenue Code. Qualification as a REIT requires a company to satisfy numerous requirements, which are highly technical and complex. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect, possibly retroactively, our ability to qualify as a REIT for federal income tax purposes. For example, one of the REIT requirements, the "five-fifty test," requires that no more than 50% of the value of a REIT's outstanding capital stock may be owned directly or indirectly, applying various constructive ownership rules, by five or fewer individuals at any time during the last half of a REIT's taxable year. Our charter provides for restrictions regarding ownership and transfer of shares that are intended to assist us in continuing to satisfy the five-fifty test. These restrictions, however, may not ensure that we will be able to satisfy, in all cases, the five-fifty test. If we fail to satisfy the five-fifty test, our status as a REIT may terminate. Other REIT requirements restrict the type of assets that a REIT may own and the type of income that a REIT may receive. These restrictions will apply to all of our assets and income. However, these asset and income requirements do not apply to assets we elect to hold in a Taxable REIT Subsidiary. We currently hold certain assets and derive income from certain of our businesses and assets which, if held or received by us directly, could jeopardize our status as a REIT. To maintain our status as a REIT, (1) we transferred these assets and businesses to Excel Legacy Holdings, Inc., a wholly-owned subsidiary of Excel Legacy, prior to the effective time of the Merger, and (2) Excel Legacy Holdings elected to be treated as a Taxable REIT Subsidiary of Price Legacy effective at the time of the Merger. If a company fails to qualify as a REIT in any taxable year, including failing to comply with the REIT distribution requirements, it may, among other things:

not be allowed a deduction for distributions to stockholders in computing its taxable income

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be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates

not be required to make distributions to stockholders

be subject to increased state and local taxes

be disqualified from treatment as a REIT for the taxable year in which it lost its qualification and the four taxable years following the year in which it lost its qualification

As a result of these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, could substantially reduce the funds available for distribution to our stockholders, could reduce the trading price of our stock and materially harm our business.

ITEM 2 Properties

Overview

At December 31, 2003, we owned 40 commercial real estate properties including one property with a 23-year ground lease and one hospitality property with a 44-year ground lease. These properties encompass approximately 8.7 million square feet of GLA and were 94% leased. The five largest properties include 2.7 million square feet of GLA that generate annual minimum rent of \$35.4 million, based on leases existing as of December 31, 2003. We also have a 50% interest in a joint venture which owns a retail property in Fresno, CA, as well as a 55% interest in a company which owns a retail and office facility in Winnipeg, Canada. These properties generate annual minimum rent of \$2.7 million and

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were 86% leased. We also own 6 properties with approximately 2,552 acres of land, either held for future development or sale. In total we have an interest in 48 properties.

The table below presents the geographic concentration of our properties at December 31, 2003, including our unconsolidated joint ventures and land held for development or sale.

Location	Number of Properties	Percent of Annual Minimum Rent
Northeastern States		
Virginia	3	15%
New York	2	7%
New Jersey	2	5%
Pennsylvania	1	3%
Total Northeastern	8	30%
Southeastern States		
Florida	9	27%
South Carolina	2	4%

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Location	Number of Properties	Percent of Annual Minimum Rent
Total Southeastern	11	31%
Midwestern States		
Kentucky	1	6%
Indiana	2	2%
Ohio	1	1%
Total Midwestern	4	9%
Western States		
California	14	20%
Arizona	9	9%
Utah	1	
Total Western	24	29%
Outside US		
Canada	1	1%
Total Outside US	1	1%
Total	48	100%

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Property Table

The following table describes our portfolio of real estate properties. Amounts shown for annual minimum rents are based on current leases as of December 31, 2003. We made no allowances for contractually-based delays to commencement of rental payments. Due to the nature of real estate investments, our actual rental income may differ from amounts shown in this schedule.

Leases in Effect as of December 31, 2003

Real Estate Portfolio	Number Of Tenants	Gross Leasable Area (sq ft)	Percent Leased	Annual Minimum Rent (1)	Principal Tenants
		(000's)		(000's)	
Commercial Properties					
Hollywood/Oakwood Plaza, FL	48	871.7	100%	\$ 9,258.0	<i>The Home Depot, K-Mart, BJ's Wholesale, Dave and Buster's, Regal Cinemas</i>
Pentagon City, VA	9	337.4	100%	7,234.7	<i>Costco, Marshall's, Best Buy, Linens "n Things, Borders Books</i>
Sterling, VA	31	737.5	99%	7,073.7	<i>Wal-Mart, Lowe's, Sam's Club, Best Buy, Nordstrom Rack</i>
Westbury, NY	7	398.6	72%	6,119.0	<i>Costco, Marshall's, The Sports Authority, Borders Books</i>
Newport, KY (2)	36	341.8	80%	5,669.0	<i>AMC, Barnes & Noble, Gameworks</i>
West Palm Beach, FL	26	357.5	98%	3,998.7	<i>K-Mart, Winn-Dixie, Linens "n Things, Ross Stores</i>
Miami, FL	25	404.6	99%	3,683.0	<i>K-Mart Marshall's, Office Max</i>
San Diego, CA	5	443.2	98%	3,275.7	<i>Costco, Price Self Storage, Charlotte Russe</i>

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Leases in Effect as of December 31, 2003

Wayne, NJ	3	348.1	75%	3,232.8	Costco, Lackland Storage, The Sports Authority
Orlando, FL	10	404.4	100%	3,175.8	Home Depot, BJ 's Wholesale, Expo Design Center
Greenville, SC	36	297.9	99%	3,087.4	Ingles, Goody's, TJ Max, Ross Stores, Old Navy
Philadelphia, PA	20	307.8	92%	2,993.2	The Home Depot, Babies R Us, AMC Theaters
Ft. Lauderdale, FL	21	229.0	93%	2,968.3	Regal Cinemas, Office Depot, Just for Feet
Mesa, AZ	25	307.7	84%	2,943.1	Sports Authority, Circuit City, Michael's
Roseville, CA	18	188.5	99%	2,469.7	The Sports Authority, Linens 'n Things, Ross Stores
Signal Hill, CA	14	154.8	100%	2,451.5	The Home Depot, PETsMART
Tempe, AZ	21	248.0	92%	2,395.5	J. C. Penney, Circuit City, Designer Shoe Warehouse,
Temecula, CA	15	343.1	97%	2,330.6	Wal-Mart, Kohl's, Ross, Marshall's
Sacramento/Bradshaw, CA	1	126.0	100%	2,207.6	AT&T
San Diego/Rancho Bernardo, CA	14	82.2	98%	2,084.4	UBS Paine Webber, Medcell Biologics
Greensburg, IN	18	272.9	99%	1,869.6	Wal-Mart, Staples
Moorestown, NJ (leased land)	4	201.4	100%	1,603.8	Lowe's, The Sports Authority
Hollywood/Oakwood Business, FL	21	141.1	82%	1,508.6	Trader Publishing Co., KOS Pharmaceuticals
San Diego/Rancho San Diego, CA	20	98.4	96%	1,333.7	Rite Aid, Ross Stores, Petco
Scottsdale/City Center, AZ	20	66.4	85%	1,179.7	RAS Management, Greater Phoenix
Phoenix/One North First St., AZ	6	97.7	74%	1,166.7	GSA/MEPS,
San Diego/Carmel Mountain, CA	6	35.0	100%	1,065.4	Claim Jumper, McMillin Realty, Islands
Phoenix, AZ	17	70.4	100%	991.4	Safeway
Orlando/Millenia II, FL (3)	9	154.3	60%	829.5	Marshall's, Pier One
Columbia, SC	14	66.5	98%	779.7	Publix
Ocala, FL	10	71.0	98%	701.3	Publix
San Juan Capistrano, CA	6	56.4	100%	664.5	PETsMART, Staples
Middletown, OH	1	126.4	100%	650.0	Lowe's
Terre Haute, IN	1	104.3	100%	557.8	Lowe's
Smithtown, NY	1	55.6	100%	550.7	Levitz Furniture
Hampton, VA	2	45.6	100%	473.4	The Sports Authority, BB&T Bank
Redwood City, CA	1	49.4	100%	453.0	Orchard Supply
Tucson, AZ	9	40.1	93%	410.2	PETsMART
Chula Vista/Rancho del Rey, CA	1	6.7	100%	84.4	Burger King
	552	8,689.4	94%	95,525.1	
Unconsolidated Joint Ventures (4)					
Fresno, CA (50% ownership)	6	121.3	100%	1,703.2	Bed, Bath & Beyond, Ross Stores, Sportmart, Pier 1 Imports
Winnipeg, Canada (55% ownership)	23	159.5	76%	1,042.2	Investors Syndicate, Province of Manito
	29	280.8	86%	2,745.4	
Total Commercial Properties	581	8,970.2	93% \$	98,270.5	

(1) Annual Minimum Rent does not include percentage rents or expense reimbursements

(2) Represents a 65% ownership interest

(3) This property opened in October 2003. Construction will continue in 2004

(4) We list 100% of annual minimum rent for the joint venture partnerships

Not included in the above table is a 65% interest in Grand Tusayan LLC which owns a 121-room hotel and restaurant in Arizona.

The following table reflects land held for development or sale:

Location	Acres	
Orlando, FL (1)	2,436.0	held for development or sale
Scottsdale, AZ (Los Arcos)	42.0	held for development or sale
Farmington, UT	40.1	held for sale
Anaheim, CA	18.8	held for sale
Tucson, AZ	12.1	held for sale
Fountain Valley, CA	2.5	held for development or sale
Total	2,551.5	

(1) *We own 50% of a limited liability company that owns this land*

Debt Secured by Properties

The following table summarizes outstanding debt secured by our properties as of December 31, 2003:

Lender	Property	Interest Rate at 12/31/03	Maturity Date	Balance	Balance due at Maturity
				(\$000's)	(\$000's)
GMAC Commercial Mortgage (1)	Westbury, NY; Signal Hill, CA; Philadelphia, PA; Wayne, NJ; and Roseville, CA	2.10%(2)	6/28/04	\$ 121,375	\$ 121,375
GE Capital Loan Services, Inc.	Hollywood/Oakwood Plaza, FL	8.18%	2/1/09	65,443	61,167
Wells Fargo Bank	Sterling, VA	5.88%	9/1/12	48,721	41,913
GE Capital Loan Services, Inc.	West Palm Beach, FL	9.00%	1/1/10	31,862	29,888
Bank One (1)	Newport, KY	4.22%(4)	3/31/04(10)	28,500	28,500
GE Capital Loan Services, Inc.	Miami, FL	8.18%	2/1/09	28,448	26,589
GE Capital Loan Services, Inc.	Ft. Lauderdale, FL	8.18%	2/1/09	22,917	21,420
GMAC Commercial Mortgage (1)	Orlando, FL	2.42%(5)	6/1/08	22,100	22,100
Wells Fargo Bank	Temecula, CA	2.62%(6)	11/5/04	20,929	(12)
New Phoenix Management (1) (3)	Greensburg, IN	7.36%	6/28/05	19,300	19,300
Jackson National Life	Tempe, AZ	3.17%(7)	12/1/06	16,180	14,930(13)
Jackson National Life	Mesa, AZ	3.17%(7)	12/1/06	15,328	14,144(13)
Rose Canyon Business Park (1) (3)	San Diego/Rancho Bernardo, CA	4.43%	12/8/04	11,706	11,750
US Bank National Association	Orlando/Millenia Phase II, FL	2.97%	3/28/05	10,466	(14)
GE Capital Loan Services, Inc.	Hollywood/Oakwood Business, FL	8.18%	2/1/09	9,998	9,345
Regions Bank	Orlando, FL (Business Park)	4.87%(8)	6/1/04	8,821	1,500
Firststar, Inc. (1)	Newport, KY	4.50%(9)	3/1/04(11)	4,738	4,738
Wells Fargo Bank	Phoenix, AZ	8.45%	2/1/17	4,181	
Fifth Third Real Estate Capital	Middletown, OH	7.63%	2/1/14	3,054	
Midland Loan Services	Phoenix, AZ	7.24%	10/1/11	1,314	1,165
				\$ 495,381	

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Lender	Property	Interest Rate at 12/31/03	Maturity Date	Balance	Balance due at Maturity
1)	<i>Monthly payments are interest only</i>				
2)	<i>Interest based on LIBOR plus 98 basis points</i>				
3)	<i>Capital lease arrangement whereby lease may be paid in full upon six month notice</i>				
4)	<i>Interest based on LIBOR plus 310 basis points</i>				
5)	<i>Interest based on LIBOR plus 130 basis points</i>				
6)	<i>Interest based on LIBOR plus 150 basis points</i>				
7)	<i>Interest based on LIBOR plus 205 basis points</i>				
8)	<i>Interest based on LIBOR plus 375 basis points</i>				
9)	<i>Interest based on Prime plus 5 basis points</i>				
10)	<i>Lender has agreed to extend this loan for one year</i>				
11)	<i>Loan was paid in full in February 2004 using proceeds from our line of credit</i>				
12)	<i>Construction loan with a maximum availability of \$22.6 million based on certain events</i>				
13)	<i>Balance due at maturity is estimated</i>				
14)	<i>Construction loan with a maximum availability of \$14.7 million</i>				

Loans to Third Parties Relating to Real Estate Development

We had \$10.3 million in principal amount of third party notes receivable outstanding as of December 31, 2003 related to various real estate developments and related businesses. The notes generally do not require cash payments of interest until specified future dates, typically when developments are completed or sold. Of the \$10.3 million outstanding, the notes receivable from companies owned by or affiliated with Steven Ellman (the Ellman Affiliates) had an aggregate outstanding principal balance of approximately \$9.5 million. The outstanding balance is net of a

\$12.9 million impairment recorded in the fourth quarter of 2003 to reflect the fair value of the notes in connection with managements' plan to sell our non-core assets. These notes receivable from the Ellman Affiliates are secured by a pledge of certain Ellman Affiliates' distributions from a holding company that owns the Phoenix Coyotes hockey team and other related assets. These loans were made at a time when the Ellman Affiliates intended to relocate the hockey team to an arena that was to be constructed on the Scottsdale property owned by Los Arcos

Development, LLC.

As a result of delays at the Scottsdale property, the Ellman Affiliates elected to pursue an alternative site for the hockey arena in Glendale, AZ. In December 2002, the Ellman Affiliates and the other investors involved in the ownership of the Phoenix Coyotes entered into a series of transactions in which the Phoenix Coyotes hockey team, and related real estate development assets were consolidated into a single holding company for the purpose of assisting the combined entity in obtaining additional financing. The sale of equity interests in the holding company could generate proceeds to help repay our notes. However, it is unclear at this time the impact the structure will have on the repayment of our loans made to the Ellman Affiliates in connection with their acquisition of the Phoenix Coyotes. We stopped accruing interest on the loans when the development projects were consolidated into the holding company.

As of January 13, 2004, we entered into loan amendments with the Ellman Affiliates to, among other things, incorporate the pledge of certain Ellman Affiliates' distributions from the holding company securing the three loans and set forth the new maturity date of the loans as December 31, 2004.

Pending Real Estate Transactions

Since December 31, 2003, we have executed 17 leases for approximately 100,000 square feet of GLA. These new leases will generate \$1.4 million in annual minimum rents. We are currently in negotiations to sell additional commercial properties and land as well as evaluating various properties for acquisition.

ITEM 3 Legal Proceedings

On or about February 13, 2001, Lewis P. Geysler filed a lawsuit against Excel Legacy in Santa Barbara County Superior Court, Anacapa Division, Case No. 01038577. The suit arose out of an Operating Agreement for Destination Villages, LLC, an entity which was owned jointly by Excel Legacy and Mr. Geysler, under which Destination Villages, LLC would develop certain eco-tourism resorts. The complaint included causes of action for breach of contract, breach of fiduciary duty, fraud and negligent misrepresentation. The lawsuit included a prayer for compensatory and punitive damages. Excel Legacy had also filed a cross-complaint against Mr. Geysler for breach of contract, fraud, breach of fiduciary duty and other related claims.

The trial of this matter began February 26, 2002 and concluded on March 19, 2002. The trial judge dismissed both the complaint and cross-complaint, and granted nothing to Mr. Geysler under any of his allegations. On June 5, 2002, Mr. Geysler filed an appeal and Excel Legacy subsequently filed a cross-appeal against Mr. Geysler. On May 12, 2003, the appellate court reversed the judgment of dismissal on the complaint and cross-complaint and remanded the case for retrial. A settlement was reached on November 25, 2003. We agreed to issue 640,000 shares of our common stock and to assign our interest in Destination Villages, LLC to Mr. Geysler in exchange for a full release of liability. The value of our interest in Destination Villages, LLC, which included a parcel of land in Yosemite, CA with a book value of \$0.8 million, and our shares of common stock is approximately \$2.9 million.

On June 13, 2002, the Bank of NT Butterfield & Sons Limited filed a lawsuit against Price Legacy and Excel Legacy in Bermuda for \$6.1 million plus other costs of approximately \$3.0 million related to a guarantee agreement for a promissory note on the Destination Villages Daniel's Head project in

Bermuda. The bank claimed that Excel Legacy did not fully complete the project in accordance with the guarantee agreement. The trial, which commenced in Bermuda in June 2003, was suspended due to illness of counsel and was scheduled to be reset for November 2003. On November 6, 2003, we agreed to pay \$4.0 million to settle the lawsuit. We agreed to settle the matter to eliminate our exposure and mitigate interest and other carrying costs.

We are not party to any other legal proceedings other than various claims and lawsuits arising in the ordinary course of business that, in the opinion of our management, are not individually or in the aggregate material to our business.

ITEM 4 Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on December 16, 2003. The matters voted upon at our annual meeting consisted of the election of six of our Directors.

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Stockholders elected the Directors at our annual meeting by the following vote:

	Votes For	Votes Withheld
Series A Preferred Stock Nominees		
Jack McGrory	2,661,179	9,791
James F. Cahill	2,662,466	8,504
Murray L. Galinson	2,662,208	8,762
Keene Wolcott	2,660,977	9,993
Series B Preferred Stock Nominees		
Rubin S. Leibowitz	17,985,612	0
Melvin L. Keating	17,985,612	0

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PART II

ITEM 5 Market for Registrant's Common Equity and Related Stockholder Matters

Stock Prices

Our common stock is currently traded on the Nasdaq National Market under the symbol PLRE, after transferring from the American Stock Exchange on March 15, 2004. Our Series A Preferred Stock is currently traded on the Nasdaq National Market under the symbol PLREO.

The table below provides, for the periods indicated, the high and low sales price for our common stock, as reported on the American Stock Exchange, and our Series A Preferred Stock, as reported on the Nasdaq National Market.

	Common Stock		Preferred Stock	
	High	Low	High	Low
Calendar Year 2002				
First Quarter	3.25	2.65	15.85	14.60
Second Quarter	4.33	3.15	16.11	15.25
Third Quarter	4.09	2.70	16.33	15.65
Fourth Quarter	3.25	2.55	17.27	14.80
Calendar Year 2003				
First Quarter	2.80	2.38	16.95	16.00
Second Quarter	3.84	2.45	17.63	16.00
Third Quarter	4.00	3.30	17.00	15.94
Fourth Quarter	3.89	3.26	16.80	16.06

On March 12, 2004, the last reported sales price per share of our common stock was \$4.10, and we had approximately 583 common stockholders of record plus those who hold their shares in street name.

As of March 15, 2004, our Series 1 Preferred Stock began trading on the Nasdaq National Market under the symbol PLREP.

Dividends

We intend to distribute at least 90% of our REIT taxable income (determined without regard to the dividends-paid deduction and by excluding any net capital gain) to maintain our qualification as a REIT.

As of December 31, 2003, we have a federal net operating loss carry-forward of approximately \$17.1 million, which can be used to reduce our federal taxable income with certain limitations.

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During 2003, we declared and paid four quarterly dividends of \$0.35 on each share of Series A Preferred Stock for a total of \$1.40 per share or \$38.4 million. Also during 2003, we declared and issued 4,458,454 additional shares of Series B Preferred Stock which represented all dividends accrued on the Series B Preferred Stock from the date of issuance through January 4, 2004. For the first 45 months after issuance, all distributions declared on our Series B Preferred Stock will be payable in additional shares of Series B Preferred Stock. Any dividends required to be paid in excess of dividends paid on our Series A Preferred Stock and our Series B Preferred Stock will be paid to our common stockholders. We did not declare or pay any dividends on our common stock during 2003.

During 2002, we declared and paid four quarterly dividends of \$0.35 on each share of Series A Preferred Stock for a total of \$1.40 per share or \$38.4 million. We accrued \$10.4 million in dividends on our Series B Preferred Stock in accordance with its terms, but did not declare or pay those dividends in 2002. Any dividends required to be paid in excess of dividends paid on our Series A

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Preferred Stock and our Series B Preferred Stock will be paid to our common stockholders. We did not declare or pay any dividends on our common stock during 2002.

During 2001, we declared and paid four quarterly dividends of \$0.35 on each share of Series A Preferred Stock for a total of \$1.40 per share or \$34.6 million. We accrued \$2.8 million in dividends on our Series B Preferred Stock in accordance with its terms, but did not declare or pay those dividends in 2001. We did not declare or pay any dividends on our common stock during 2001.

It is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet our distribution requirements due to timing differences between (i) the actual receipt of such income and actual payment of deductible expenses and (ii) the inclusion of such income and deduction of such expenses in arriving at our taxable income. In the event that such timing differences occur, in order to meet these distribution requirements, we may find it necessary to arrange for short-term, or possibly long-term borrowings or to pay dividends in the form of taxable stock dividends.

On January 7, 2004, we issued 640,000 shares of our common stock to Lewis P. Geysler in connection with the settlement of a dispute between us and Mr. Geysler, which is described above under "Item 3. Legal Proceedings." The shares were issued to accredited investors in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, under Section 4(2) of the Securities Act or Regulation D promulgated thereunder.

ITEM 6 Selected Financial Data

The following selected data should be read in conjunction with our financial statements and accompanying notes located elsewhere in this Form 10-K and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." (amounts in thousands, except per share data)

	Year Ended December 31				
	2003	2002	2001	2000	1999
Statement of Operations Data					
Rental revenues	\$ 126,123	\$ 114,208	\$ 70,948	\$ 59,770	\$ 57,759
Operating income	1,535	47,573	37,516	34,990	30,144
(Loss) income from continuing operations	(22,257)	27,393	30,130	28,063	23,752
Discontinued operations	(48,587)	13,543	6,549	4,129	4,202
Net (loss) gain on sale of real estate and investments	(17)	291	1,322	2,100	4,717
Net loss (income)	(70,861)	41,227	38,001	34,292	32,671
Net (loss) income per common share from continuing operations basic	(1.97)	(0.54)	(0.28)	(0.24)	(0.36)
Cash dividends per share					
Preferred share	1.40	1.40	1.40	1.40	1.40
Common share					

As of December 31

	2003	2002	2001	2000	1999
Balance Sheet Data					
Real estate assets, net	\$ 1,096,991	\$ 1,106,418	\$ 1,045,424	\$ 545,456	\$ 550,492
Total assets	1,170,888	1,273,018	1,193,394	662,405	562,558
Mortgages and notes payable	564,481	548,111	484,023	195,009	97,241
Series A Preferred Stock	399,615	399,615	399,615	353,404	353,404
Series B Preferred Stock	131,023	106,234	106,234		
Total stockholders' equity	574,854	692,971	692,594	463,109	461,260

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ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

As you read Management's Discussion and Analysis of Financial Condition and Results of Operations, it may be helpful to refer to our financial statements and accompanying notes beginning on page 41. In Management's Discussion and Analysis we explain the changes in specific line items in the Consolidated Statements of Operations. Where changes are due to more than one reason, we list the reasons in order of importance.

Introduction

In Management's Discussion and Analysis of Financial Condition and Results of Operations, we explain our general financial condition and results of operations including:

results of operations

why revenues, costs and earnings changed from the prior period

funds from operations (FFO)

how we used cash for capital projects and dividends during 2001 through 2003 and how we expect to use cash in 2004

where we plan on obtaining cash for future dividend payments and future capital expenditures

The results of Excel Legacy are included in operations beginning September 19, 2001.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Preparation of our financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related notes. We believe that the following accounting policies are critical because they affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Consolidation

We combine our financial statements with those of our wholly-owned subsidiaries as well as all affiliates in which we have control and present them on a consolidated basis. The consolidated financial statements do not include the results of transactions between us and our

subsidiaries or among our subsidiaries.

We account for our investment in unconsolidated joint ventures using the equity method of accounting. Under the equity method of accounting, the net equity investment of the joint ventures is reflected on the Consolidated Balance Sheets and the Consolidated Statements of Operations includes our share of net income or loss from the unconsolidated joint ventures.

We also follow the guidelines of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" an interpretation of ARB No. 51" (FIN 46R). This interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition (ownership of a majority voting interest) of consolidation does not apply, and focuses on financial interests that indicate control.

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It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential reward from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

Revenue Recognition

Rental revenues include: (1) minimum annual rentals, adjusted for the straight-line method for recognition of fixed future increases; (2) additional rentals, including recovery of property operating expenses, and certain other expenses which we accrue in the period in which the related expense occurs; and (3) percentage rents based on the level of sales achieved by the lessee, which we recognize when earned in accordance with the SEC's Staff Accounting Bulletin No. 101 and No. 104.

Gain or loss on sale of real estate is recognized when the sales contract is executed, title has passed, payment is received, and we no longer have continuing involvement in the asset.

Real Estate Assets and Depreciation

We record real estate assets at historical costs and adjust them for recognition of impairment losses.

We expense ordinary repairs and maintenance costs incurred, which include building painting, parking lot repairs, etc. We capitalize major replacements and betterments, which include HVAC equipment, roofs, etc., and depreciate them over their estimated useful lives.

We compute real estate asset depreciation on a straight-line basis over their estimated useful lives, as follows:

Land improvements	40 years
Building and improvements	20 to 40 years
Tenant improvements	Lesser of the lease term or 10 years
Fixtures and equipment	3-7 years

We review long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recovered. We consider assets to be impaired and write them down to fair value if their expected associated future undiscounted cash flows are less than their carrying amounts.

Construction in progress assets are transferred to the appropriate real estate investment category and depreciation is recorded once the asset is substantially complete and ready for its intended use. We capitalize interest incurred during the construction period of certain assets and this interest is depreciated over the lives of those assets.

Pre-development costs that are directly related to specific construction projects are capitalized as incurred. We expense these costs to the extent they are unrecoverable or it is determined that the related project will not be pursued.

Asset Disposal

We follow SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A long-lived asset to be sold is classified as held for sale when management has committed to a plan to sell the asset, the asset is available for sale in its present condition, a program to locate a buyer has been initiated, sale of the asset is probable within one year, and the asset is being marketed for sale at a price that is reasonable in relation to its current fair value. We no longer record depreciation on assets held for sale. We consider an asset to be impaired and write it down to fair value if the fair value less cost to sell is less than the carrying amount. In accordance with SFAS 144, the results of operations and the gain or loss on disposition of operating properties sold after January 1, 2002 or held for sale at December 31, 2003 have been presented in discontinued operations for all periods presented on the Consolidated Statements of Operations.

Results of Operations**Rental Revenues**

	<u>Amount (000's)</u>	<u>Change (000's)</u>	<u>Percent Change</u>
2003 Year ended December 31	\$ 126,123	\$ 11,915	10%
2002 Year ended December 31	114,208		
2002 Year ended December 31	114,208	43,260	61%
2001 Year ended December 31	70,948		

Revenues increased \$11.9 million to \$126.1 million in 2003 compared to 2002 because:

properties we acquired during 2003 and 2002 generated \$9.4 million of additional revenues

properties we owned both years generated \$2.3 million of additional revenues primarily due to additional leasing activity at our Newport, KY and Moorestown, NJ properties and the opening of our Temecula, CA property. These increases were partially offset by vacancies at our Westbury, NY property due to Kmart's bankruptcy and our Wayne, NJ property due to Today's Man and The Wiz bankruptcies

management fee revenue increased \$0.2 million, mainly due to a one-time development fee earned on a project no longer being considered

Revenues increased \$43.3 million to \$114.2 million in 2002 compared to 2001 because:

properties we acquired during 2001 and 2002 generated \$34.8 million of additional revenues

properties acquired from Excel Legacy due to the Merger generated an additional \$10.0 million in revenues

revenues from properties we owned in both 2001 and 2002 increased \$1.3 million, primarily due to the lease up of a vacant space at our Moorestown, NJ property

partially offsetting these increases was the loss of \$2.8 million in revenues generated in 2001 from properties sold during 2002

Expenses

	<u>Amount (000's)</u>	<u>Change (000's)</u>	<u>Percent Change</u>
2003 Year ended December 31	\$ 124,588	\$ 57,953	87%
2002 Year ended December 31	66,635		
2002 Year ended December 31	66,635	33,203	99%
2001 Year ended December 31	33,432		

Expenses increased \$58.0 million to \$124.6 million in 2003 compared to 2002 primarily due to:

provisions for asset impairments increased \$42.3 due to impairments from continuing operations recorded on our investments in MACE, Los Arcos Development, LLC and Arizona Hockey Management to reflect the estimated fair market value and prepare for the disposal of these non-core assets

properties we acquired in 2003 and 2002 generated \$4.4 million of additional expenses

expenses from properties we owned in both years increased \$6.1 million, primarily due to increased depreciation expense at our Newport, KY location and increased bad debt expense at our Wayne, NJ location as a result of the bankruptcies of Today's Man and The Wiz. Expenses also increased due to the opening of our Temecula, CA property

general and administrative expenses increased \$5.2 million, primarily due to our \$4.0 million payment to a bank as settlement of a lawsuit related to our former Destination Villages Daniel's Head project in Bermuda. We also agreed to pay \$2.9 million to Lewis P. Geyser to settle a lawsuit which arose out of an Operating Agreement for Destination Villages, LLC. Finally, we recorded \$1.5 million of additional compensation expense related to the purchase of our shares of common stock and acceleration of stock options in connection with the resignation of the former members of our senior management. These increases to general and administrative expense were partially offset by additional compensation expense in 2002 of \$2.8 million to record the difference between the officers' notes receivable book value and the value of the related shares which did not occur in 2003

Expenses increased \$33.2 million to \$66.6 million in 2002 compared to 2001 primarily due to:

properties we purchased in 2001 and 2002 generated additional expenses of \$14.1 million

properties acquired from Excel Legacy due to the Merger contributed \$10.8 million to expenses

an increase in general and administrative expenses of \$5.6 million, including additional non-cash compensation expense of \$2.8 million to record the difference between the officers' notes book value and the market value of the related shares during 2002. General and administrative expenses also increased \$1.6 million related to salaries and benefits. Prior to the Merger, Excel Legacy was responsible for our daily management and we reimbursed them for these services based on our historical costs for similar expenses. General and administrative expenses also increased due to legal fees and other costs of \$1.1 million related to our investment in Destination Villages, LLC

we recognized an impairment loss of \$3.4 million on one of our notes receivable during 2002 based on the estimated fair value of the collateralized asset

we recognized an impairment loss of \$2.5 million on our Inglewood, CA property during 2002. The loss was based on the assessed fair value of the property after the property's only tenant declared bankruptcy and vacated

expenses on properties we owned in 2001 and 2002 increased \$0.9 million

these increases in expenses were partially offset by a decrease in expenses of \$1.1 million as a result of properties sold during 2001

Operating Income

	<u>Amount (000's)</u>	<u>Change (000's)</u>	<u>Percent Change</u>
2003 Year ended December 31	\$ 1,535	\$ (46,038)	(97%)
2002 Year ended December 31	47,573		
2002 Year ended December 31	47,573	10,057	27%
2001 Year ended December 31	37,516		

Operating income decreased for 2003 and increased for 2002 compared to the same periods in the prior year primarily because of the changes in Rental Revenues and Expenses discussed above.

Interest Expense

	<u>Amount (000's)</u>	<u>Change (000's)</u>	<u>Percent Change</u>
2003 Year ended December 31	\$ 25,980	\$ 1,421	6%
2002 Year ended December 31	24,559		
2002 Year ended December 31	24,559	9,075	59%
2001 Year ended December 31	15,484		

During 2003, interest expense increased \$1.4 million compared to 2002 because:

our average debt outstanding in 2003 was \$559.6 million compared to \$513.8 million in 2002, which relates primarily to additional borrowings and assumptions of loans with the purchase of properties

the increase in interest expense due to the amount of debt outstanding was partially offset by a decrease in interest rates on our variable rate debt. The weighted average interest rate on our variable rate debt decreased to 2.7% on December 31, 2003 compared to 3.1% at December 31, 2002

interest expense is net of \$1.7 million interest capitalized to real estate assets under construction/development in 2003 and \$2.0 million in 2002

During 2002, interest expense increased \$9.1 million compared to 2001 because:

our average debt outstanding in 2002 was \$513.8 million compared to \$274.0 million in 2001, which relates primarily to additional borrowings and assumptions of loans with the purchase of properties

the increase in interest expense due to the amount of debt outstanding was partially offset by a decrease in interest rates on our variable rate debt. The weighted average interest rate on our variable rate debt decreased to 3.1% on December 31, 2002 compared to 3.6% at December 31, 2001

interest expense is net of \$2.0 million interest capitalized to real estate assets in 2002 and \$1.6 million in 2001

We discuss our outstanding debt further in "Liquidity and Capital Resources" located elsewhere in this Form 10-K.

Interest Income

	Amount (000's)	Change (000's)	Percent Change
2003 Year ended December 31	\$ 1,062	\$ (3,438)	(76%)
2002 Year ended December 31	4,500		
2002 Year ended December 31	4,500	(2,990)	(40%)
2001 Year ended December 31	7,490		

Interest income decreased \$3.4 million to \$1.1 million in 2003 compared to 2002 primarily because:

we stopped accruing interest income on certain notes receivable when development projects were added as collateral in 2002 to repay the notes, which decreased interest income \$2.7 million

officers' notes receivable, which we retired in 2002, decreased interest income \$0.6 million

interest income on our outstanding cash balances decreased \$0.1 million due to lower interest rates

Interest income decreased \$3.0 million to \$4.5 million in 2002 compared to 2001 primarily because:

at the time of the Merger, we stopped accruing interest income on our note receivable with Excel Legacy, which earned interest of \$2.9 million in 2001

interest income on our outstanding cash balances decreased by \$0.4 million due to lower interest rates

these decreases were partially offset by an increase in interest income of \$0.3 million on our officers' notes

Discontinued Operations

During 2003, we recorded impairments on two of our properties held for sale. These impairments are recorded as part of discontinued operations in the Consolidated Statements of Operations in accordance with SFAS No. 144:

Location	Description	Amount
Anaheim, CA	Land	\$ 43,429
Farmington, UT	Land	3,568

During 2002 we recognized an impairment loss of \$2.5 million on our property in Inglewood, CA. The loss was determined based on the estimated fair value of the property. We sold this property during 2003 and the impairment is included with discontinued operations on the Consolidated Statements of Operations in accordance with SFAS No. 144.

During 2003, we sold the following operating properties for a net loss of \$2.5 million. This loss is recorded as discontinued operations in the Consolidated Statements of Operations in accordance with SFAS No. 144:

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Location	Description	Date Sold	Sales Price (000's)
Scottsdale, AZ	Land, Restaurant	3/31/03	\$ 3,000
Inglewood, CA	Warehouse Building	4/29/03	4,000
New Britain, CT	Warehouse Building	5/15/03	3,529
Northridge, CA	Shopping Center	6/27/03	5,850

During 2002, we sold the following operating properties and recorded a net gain of \$9.3 million. This gain is recorded as discontinued operations in the Consolidated Statements of Operations in accordance with SFAS No.144.

Location	Description	Date Sold	Sales Price (000's)
Glen Burnie, MD	Shopping Center	6/21/02	\$ 15,200
San Diego/Murphy Canyon, CA	Self Storage	8/29/02	29,688
Solana Beach, CA	Self Storage	8/29/02	16,282
Azusa, CA	Self Storage	9/30/02	6,537

Net (Loss) Gain on Sale of Real Estate and Investments

During 2003, we sold the following non-depreciable real estate and investments for a net loss of \$0.7 million:

Location	Description	Date Sold	Sales Price (000's)
N/A	Joint ventures, notes receivable	8/13/03	\$ 300
Tucson, AZ	Land	8/22/03	416
N/A	Stock	9/30/03	35
N/A	Stock	10/1/03	6
Temecula/Redhawk II, CA	Development property	10/15/03	4,754
Bend, OR	Joint venture	12/11/03	3,738

Also during 2003, we received payment on three notes receivable related to the sale of our self storage development properties in 2002. We recognized a gain of \$0.7 million on the sale.

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During 2002, we sold the following non-depreciable properties for a net gain of \$0.3 million:

Location	Description	Date Sold	Sales Price (000's)
Hollywood, FL	Land	1/31/02	\$ 1,410
Tucson/Marana, AZ	Land	1/31/02	684
Hollywood, FL	Land	4/19/02	1,028
San Diego/Pacific Beach, CA	Self Storage Development	6/1/02	11,632
Walnut Creek, CA	Self Storage Development	6/1/02	7,708
San Juan Capistrano, CA	Self Storage Development	6/1/02	6,918

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Funds From Operations (amounts in thousands)

	Year Ended December 31		
	2003	2002	2001
Net (loss) income	\$ (70,861)	\$ 41,227	\$ 38,001
Depreciation and amortization	22,533	17,517	8,995

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Year Ended December 31

Depreciation and amortization from discontinued operations	801	1,807	2,273
Price Legacy's share of joint venture depreciation	1,442	987	757
Depreciation of non-real estate assets	(113)	(155)	(39)
Net loss (gain) on sale of real estate and investments	17	(291)	(1,322)
Net loss (gain) on sale of discontinued operations	2,502	(9,284)	
Non-cash effect of accounting change by equity investor		672	
FFO before preferred dividends	(43,679)	52,480	48,665
Preferred dividends	(49,821)(1)	(48,849)(2)	(37,442)(3)
FFO	\$ (93,500)	\$ 3,631	\$ 11,223
Net cash provided by operating activities	\$ 44,653	\$ 58,225	\$ 34,583
Net cash used by investing activities	(11,618)	(115,444)	(99,802)
Net cash (used) provided by financing activities	(36,875)	45,809	38,104

(1) *Includes \$11.6 million of non-cash dividends accumulated on our Series B Preferred Stock*

(2) *Includes \$10.4 million of non-cash dividends accumulated on our Series B Preferred Stock*

(3) *Includes \$2.8 million of non-cash dividends accumulated on our Series B Preferred Stock*

Our Company, as well as real estate industry analysts, generally considers FFO as another measurement of economic profitability for real estate-oriented companies. The Board of Governors of the National Association for Real Estate Investment Trusts (NAREIT) defines FFO as net income in accordance with GAAP, excluding gains (or losses) from sales of property, plus depreciation and amortization. We calculate FFO in accordance with the NAREIT definition which also excludes gains (losses) from the sale of investments, and adjust for preferred dividends. Effective July 1, 2003, in accordance with new guidance published by NAREIT, we began excluding provisions for asset impairments as an add-back to FFO. Our FFO for the year ended December 31, 2002 has been restated to reflect this change. We believe that FFO is helpful to investors as a measure of our financial performance because, along with cash flow from operating activities, financing activities and investing activities, FFO provides investors with an indication of the ability of a REIT to incur and service debt, to make capital expenditures and to fund other cash needs. In addition, we believe that FFO provides useful information about our performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. FFO does not represent the cash flows from operations defined by GAAP, may not be comparable to similarly titled measures of other companies and should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. Excluded from FFO are significant components in understanding our financial performance.

FFO before preferred dividends during 2003 decreased \$96.2 million or 183.2% to \$(43.7) million compared to 2002 because:

our provision for asset impairments from continuing operations increased \$42.3 million compared to the prior year as we recorded impairments on our investments in MACE, Los Arcos Development, LLC, and Arizona Hockey Management and other non-core assets. Our provision for asset impairments from discontinued operations increased \$44.5 million as we

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properties sold which contributed \$7.5 million to FFO in the previous year

additional general and administrative expenses reduced FFO \$5.2 million

decreased interest income reduced FFO \$3.4 million

additional interest expense reduced FFO \$1.4 million

properties we owned in both years contributed an additional \$1.4 million to FFO in the prior year

these decreases to FFO were partially offset by:

properties acquired in 2002 contributed an additional \$7.4 million to FFO

joint ventures contributed an additional \$1.7 million to FFO in the current year, mainly due to a forfeited deposit of \$1.0 million received from a potential buyer of our investment in Orlando Business Park LLC

FFO before preferred dividends during 2002 increased \$3.8 million or 7.8% to \$52.5 million compared to 2001 because:

properties we acquired during 2001 and 2002 increased FFO \$28.9 million

properties we owned in both 2001 and 2002 increased FFO \$0.9 million

joint ventures contributed an additional \$0.2 million to FFO in 2002

these increases to FFO were partially offset by:

additional interest expense which reduced FFO \$9.1 million

our provision for asset impairments reduced FFO \$5.9 million when we recognized impairment losses on a note receivable and a property

additional general and administrative expenses reduced FFO \$5.6 million

decreased interest income, reduced FFO \$3.0 million

properties sold which contributed \$2.4 million to FFO in the previous year

Liquidity and Capital Resources

Liquidity refers to our ability to generate sufficient cash flows to meet the short and long-term cash requirements of our business operations. Capital resources represent those funds used or available to be used to support our business operations and consist of stockholders' equity and debt.

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Cash flow from operations has been the principal source of capital to fund our ongoing operations and dividend payments, while asset sales and use of our credit facilities and mortgage financing have been the principal sources of capital required to fund our growth. While we are positioned to finance our business activities through a variety of sources, we expect to satisfy short-term liquidity requirements through net cash provided by operations and through borrowings.

Dividends

As a REIT, we are required to distribute 90% of our taxable income, excluding capital gains, in dividends. Our Series A Preferred Stock requires a quarterly dividend payment of \$9.6 million, an annual total of \$38.4 million. Also during 2003, we declared and issued 4,458,454 additional shares of

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Series B Preferred Stock which represented all dividends accrued on the Series B Preferred Stock from the date of issuance through January 4, 2004. As of December 31, 2003, we have a federal net operating loss (NOL) carry-forward of approximately \$17.1 million, which could be used to offset future taxable income.

As a result of our Recapitalization Transaction, our Series B Preferred Stock was exchanged for shares of common stock. In addition, based on a preliminary report from the exchange agent in the Series A Exchange Offer, approximately 20,942,101 shares of our Series A Preferred Stock were tendered for exchange in the Series A Exchange Offer for a total of approximately 2,942,325 shares of our Series 1 Preferred Stock and approximately 18,899,765 shares of our common stock (on a post 1-for-4 reverse split basis). In the future, if the dividends we pay to holders of our Series A and Series 1 Preferred Stock are less than 90% of our taxable income (after applying any applicable NOLs), we can declare a dividend to our common stockholders. Because the Recapitalization Transaction will reduce the amount of dividends payable to preferred holders, in the future it will be more likely that we will be required to pay a dividend to our common stockholders in order to distribute 90% of our taxable income. On March 12, 2004, we announced our intention to declare a dividend to our common stockholders of \$0.28 per share, depending on our operating results, overall financial condition, capital requirements and general business conditions.

If our taxable income is less than the dividends we pay to holders of our Series A and Series 1 Preferred Stock, we are still obligated to pay them. If we are unable to pay these dividends when due, they accumulate until paid.

Debt

In September 2001, we entered into a \$100.0 million unsecured credit facility with Fleet Bank as agent. The facility has a three-year term and has a current interest rate of LIBOR plus 188 basis points. The rate may vary between 150 and 200 basis points based on our leverage and other financial ratios. At December 31, 2003, we had \$69.1 million outstanding on the facility at a 3.1% interest rate. In February 2004, we amended the credit facility, repaid \$60.0 million and Wells Fargo Bank assumed the amended facility. The amended facility provides for a maximum borrowing of \$25.0 million. This amendment was intended to provide financing through the completion of the Recapitalization Transaction. Now that the Recapitalization Transaction is complete, we intend to enter into a new \$50.0 million credit facility with Wells Fargo Bank. We expect the new facility will have a 3-year term and an interest rate of LIBOR plus 155 basis points, and that the rate will be variable, between 118 and 170 basis points based on our leverage and other financial ratios. We expect that we will be able to increase the new facility by \$25.0 million to allow up to \$75.0 million of borrowings.

Our current credit facility requires us to comply with specified financial covenants, the most restrictive of which relate to fixed charge coverage and leverage. Covenants in some of our construction loans are also tied to our credit facility. We were in compliance with all covenants in our credit facility at December 31, 2003. To the extent that we violate any of these covenants in the future, we would need to obtain waivers from our lenders to maintain compliance. We cannot assure that any such waivers would be forthcoming.

In 2003 we had the following significant debt maturities:

In February 2003, a \$12.9 million bank loan related to a development project in Scottsdale, AZ matured. We have a note receivable from a developer related to this project and we have guaranteed the bank loan. On February 27, 2003, we purchased the loan from the lender for an aggregate purchase price of \$13.0 million, which was funded through borrowing on our credit facility

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In April 2003, a \$38.5 million construction loan related to our project in Newport, KY matured. The lender extended the loan for an additional year and we repaid \$10.0 million of the outstanding amount. The current loan balance is \$28.5 million

In April 2003, a \$22 million loan related to our property in Orlando, FL matured. We refinanced this debt with a new loan which matures in June 2008

In May 2003, a \$4.7 million loan related to our property in Newport, KY matured. The lender extended this loan for an additional year

In June 2003, a \$3.3 million loan related to our property in Terre Haute, IN matured. We repaid this loan with available cash

In August 2003, we repaid a \$3.1 million capital lease obligation related to our Scottsdale, AZ office building at the lessor's request. We repaid this obligation with available cash

In September 2003, a \$6.3 million note related to our Anaheim project matured. We repaid this note with available cash

In November 2003, we repaid a \$4.4 million loan assumed with the acquisition of an office building in Phoenix, AZ. We repaid this obligation by borrowing on our credit facility

We have an \$8.8 million loan related to land we own in Orlando, FL through a partnership. This loan is guaranteed by us and by our partner. Beginning December 2003, the loan required monthly principal repayments of \$1.5 million. We have been funding these repayments on behalf of the partnership. In April 2003, we repaid \$1.0 million on this loan with funds we received as a non-refundable deposit from a potential buyer

In 2004 we will have the following significant debt financing and maturities:

In January 2004, we obtained a \$60.0 million loan secured by our property in Pentagon City, VA. We used the proceeds to reduce the amount outstanding on our credit facility

In February 2004, we repaid a \$4.7 million loan related to our property in Newport, KY. We repaid the loan through borrowing on our credit facility

In March 2004, a \$28.5 million construction loan related to our property in Newport, KY matures. The lender agreed to extend this loan for another year

In April 2004, we plan to refinance a \$19.3 million capital lease on our Greensburg, IN property with a \$14.2 million loan. We plan to repay the difference through a borrowing on our credit facility

In June 2004, an \$8.8 million loan related to land we own in Orlando, FL matures. This loan is guaranteed by us and by our partner. The loan requires monthly principal repayments of \$1.5 million until paid in full. We have been funding these repayments on behalf of the partnership until we refinance the loan

In July 2004, a \$121.4 million loan related to five properties matures. We plan to refinance this loan

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In November 2004, a \$20.9 million construction loan related to our property in Temecula, CA matures. We plan to refinance this loan with a new lender

In December 2004, an \$11.7 million capital lease related to our office building in San Diego/Rancho Bernardo, CA matures. We subleased our interest in this property to former members of our senior management and granted them the right to purchase the property

We may also refinance additional debt outstanding to obtain more favorable terms.

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The following table summarizes all of our long-term contractual obligations, excluding interest, to pay third parties as of December 31, 2003 (amounts in thousands):

Contractual Cash Obligations					
	Total	Less than 1 year	1-3 years	3-5 Years	More than 5 years
Mortgages and notes payable	\$ 564,481	\$ 268,663	\$ 66,292	\$ 29,011	\$ 200,515
Capital lease obligations	26,661	997	1,994	1,994	21,676
Total	\$ 591,142	\$ 269,660	\$ 68,286	\$ 31,005	\$ 222,191

In 2004 we plan to use cash flow from operations to fund our recurring debt service obligations.

Off-Balance Sheet Financing Matters

The City of Newport, KY in 1999 issued two series of public improvement bonds related to our project in Newport, KY. The Series 2000a tax exempt bonds total \$44.2 million and are broken down as follows: (a) \$18.7 million maturing 2018 with interest at 8.375%; (b) \$20.5 million maturing 2027 with interest at 8.5%; and (c) \$5.0 million maturing 2027 with interest at 8.375%. The Series 2000b bonds are taxable and have a par amount of \$11.6 million with interest at 11% due 2009. The bonds are guaranteed by the Newport project, Excel Legacy, and the project's third party developer. As of December 31, 2003, Newport had drawn on \$48.6 million of the bonds for construction incurred prior to that date.

Summarized debt information for our unconsolidated joint ventures and the amount guaranteed by us at December 31, 2003 is as follows (amounts in thousands):

Joint Venture	December 31 2003	Debt Guaranteed	Maturity Date
Blackstone Ventures I	\$ 9,797	\$ 3,098	10/1/04
3017977 Nova Scotia Company	6,191		6/15/04
	\$ 15,988	\$ 3,098	

In March 2004, we paid \$2.8 million to purchase our partners' 50% interest in Blackstone Ventures I joint venture and assumed the \$9.8 million loan on the property.

Growth

We continue to evaluate various properties for acquisition or development and continue to evaluate other investment opportunities in a very competitive real estate market. We anticipate borrowing available amounts on our credit facility or mortgages to fund any acquisition and development opportunities. We also anticipate obtaining construction loans to fund our development activities. During the year ended December 31, 2003, we acquired an office building in Phoenix, AZ via a deed in lieu of foreclosure agreement on a deed of trust securing notes

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receivable from First Street Investments LP (an affiliate of the Ellman Companies). The notes receivable were written down in the fourth quarter of 2002 to \$1.0 million, the estimated fair value of the office building net of debt. We assumed the outstanding loan of \$4.4 million in connection with the property. This loan was paid in full in November 2003. We also purchased two parcels of land in Anaheim, CA in 2003 for \$5.1 million.

Development

We have a significant retail project in Newport, KY. The majority of the construction was completed in October 2001, with all of the primary buildings completed except for one out parcel yet to be leased. The project opened in October 2001. At December 31, 2003, the project was

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approximately 80% occupied, excluding ground leases. As the project becomes fully leased, there may be capital required to fund the remaining tenant improvements. We estimate spending approximately \$1.5 million through 2004 on tenant improvements.

We also have retail development projects in which construction will continue through 2004. The Temecula, CA project is an open-air retail shopping center with Wal-Mart, Kohl's and other tenants. At December 31, 2003, the project was approximately 97% leased. We estimate spending an additional \$5.0 million to develop a historic parcel within the project. We expect to fund this cost through available cash. In December 2002, we purchased additional land adjacent to this development project to develop an additional open-air retail center. In October 2003, we sold this additional land to former officers for \$4.8 million, which was the approximate book value of the land.

In November 2002, we purchased land adjacent to our retail property in Orlando, FL to develop an open-air retail center. At December 31, 2003, the project was approximately 60% occupied. We estimate the total cost of this development to be approximately \$19.7 million with an estimated \$0.8 million remaining to complete construction, which we will fund through an existing construction loan.

Los Arcos Development, LLC (an affiliate of the Ellman Companies), previously classified as notes receivable on our balance sheet, owns land in Scottsdale, AZ. Commencing in 1996 loans were made to Los Arcos Development, LLC to acquire this real estate. The Ellman Companies currently plan to develop a shopping center or sell the Scottsdale property. At December 31, 2003, we wrote down the value of these notes receivable and recognized an impairment of \$29.5 million. The investment was written down as a result of significant recent legal challenges to the development agreement between Los Arcos Development, LLC and the City of Scottsdale, AZ, which may cause lengthy delays in the project's development or cause Los Arcos Development, LLC to abandon the existing development agreement. As of December 31, 2003, the outstanding principal balance on the note receivable relating to the Scottsdale property was approximately \$19.5 million and is classified as land on our Consolidated Balance Sheets in accordance with FIN 46R. We may contribute an additional \$1.9 million during the next year for pre-development expenses related to this project.

Orlando Business Park, LLC, land which was previously classified as a joint venture on our balance sheet, owns approximately 2,400 acres in Orlando, FL. During 2004 we estimate spending approximately \$1.0 million on re-entitlements and plan on funding this amount through a loan or through available cash.

Properties Held for Sale

From time to time we will consider selling properties to better align our portfolio with our geographic and tenant composition strategies. We may also participate in additional tax-deferred exchange transactions, which allow us to dispose of properties and reinvest the proceeds in a tax efficient manner. During the year ended December 31, 2003, we sold four properties and two land parcels for \$21.5 million. When we sell an operating property, we anticipate a temporary reduction in operating income due to the time lag between selling a property and reinvesting the proceeds.

The Anaheim GardenWalk project in Anaheim, CA, located adjacent to Disney's two theme parks on Harbor Boulevard and Disney's new proposed theme park on Katella Avenue, is expected to consist of a 626,000 square foot open-air retail center and four hotels. During the fourth quarter of 2003, we decided to sell the property rather than develop it and wrote down the value by \$43.4 million to its estimated fair market value.

We also own approximately 40 acres of land in Farmington, UT. During the fourth quarter of 2003, we decided to sell the property rather than develop it and wrote down the value by \$3.6 million to its estimated fair market value.

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We are contemplating purchasing various properties and selling certain other properties. As we sell properties, our cash flows from operations may decrease until the proceeds are reinvested into new properties.

Notes Receivable

We had \$10.3 million in principal amount of third party notes receivable outstanding as of December 31, 2003 related to various real estate developments and related businesses. The notes generally do not require cash payments of interest until specified future dates, typically when developments are completed or sold. Of the \$10.3 million outstanding, the notes receivable from companies owned by or affiliated with Steven Ellman (the Ellman Affiliates) had an aggregate outstanding principal balance of approximately \$9.5 million. The outstanding balance is net of a \$12.9 million impairment recorded in the fourth quarter of 2003 to reflect the fair value of the notes in connection with managements' plan to sell our non-core assets. These notes receivable from the Ellman Affiliates are secured by a pledge of certain Ellman Affiliates' distributions from a holding company that owns the Phoenix Coyotes hockey team and other related assets. These loans were made at a time when the Ellman Affiliates intended to relocate the hockey team to an arena that was to be constructed on the Scottsdale property owned by Los Arcos Development, LLC.

As a result of delays at the Scottsdale property, the Ellman Affiliates elected to pursue an alternative site for the hockey arena in Glendale, AZ. In December 2002, the Ellman Affiliates and the other investors involved in the ownership of the Phoenix Coyotes entered into a series of transactions in which the Phoenix Coyotes hockey team and related real estate development assets were consolidated into a single holding company for the purpose of assisting the combined entity in obtaining additional financing. The sale of equity interests in the holding company could generate proceeds to help repay our notes. However, it is unclear at this time the impact the structure will have on the repayment of our loans made to the Ellman Affiliates in connection with their acquisition of the Phoenix Coyotes. We stopped accruing interest on the loans when the development projects were consolidated into the holding company.

As of January 13, 2004, we entered into loan amendments with the Ellman Affiliates to, among other things, incorporate the pledge of certain Ellman Affiliates' distributions from the holding company securing the three loans and set forth the new maturity date of the loans as December 31, 2004.

Litigation

On June 13, 2002, the Bank of NT Butterfield & Sons Limited filed a lawsuit against Price Legacy and Excel Legacy in Bermuda for \$6.1 million plus other costs of approximately \$3.0 million related to a guarantee agreement for a promissory note on the Destination Villages Daniel's Head project in Bermuda. The bank claimed that Excel Legacy did not fully complete the project in accordance with the guarantee agreement. The trial, which commenced in Bermuda in June 2003, was suspended due to illness of counsel and was scheduled to be reset for November 2003. On November 6, 2003, we agreed to pay \$4.0 million to settle the lawsuit. We agreed to settle the matter to eliminate our exposure and mitigate interest and other carrying costs.

On or about February 13, 2001, Lewis P. Geyser filed a lawsuit against Excel Legacy in Santa Barbara County Superior Court, Anacapa Division, Case No. 01038577. The suit arose out of an Operating Agreement for Destination Villages, LLC, an entity which was owned jointly by Excel Legacy and Mr. Geyser, under which Destination Villages, LLC would develop certain eco-tourism resorts. The complaint included causes of action for breach of contract, breach of fiduciary duty, fraud and negligent misrepresentation. The lawsuit included a prayer for compensatory and punitive damages.

Excel Legacy also filed a cross-complaint against Mr. Geyser for breach of contract, fraud, breach of fiduciary duty and other related claims.

The trial of this matter began February 26, 2002 and concluded on March 19, 2002. The trial judge dismissed both the complaint and cross-complaint, and granted nothing to Mr. Geyser under any of his allegations. On June 5, 2002, Mr. Geyser filed an appeal and Excel Legacy subsequently filed a cross-appeal against Mr. Geyser. On May 12, 2003, the appellate court reversed the judgment of dismissal on the complaint and cross-complaint and remanded the case for retrial. On November 25, 2003, we agreed to assign our interest in Destination Villages, LLC and issue 640,000 shares of our common stock to Mr. Geyser to settle the lawsuit. The value of our interest in Destination Villages, LLC, which included a parcel of land in Yosemite, CA with a book value of \$0.8 million, and the shares of our common stock is approximately \$2.9 million. We agreed to settle the matter to eliminate our exposure and mitigate interest and other carrying costs.

Other

On October 15, 2003, Messrs. Gary B. Sabin, Richard B. Muir, Graham R. Bullick and S. Eric Ottesen resigned as officers and Messrs. Sabin and Muir resigned as directors of our Company. In connection with these resignations, we entered into a master separation agreement with Messrs. Sabin, Muir, Bullick and Ottesen that established certain additional arrangements between Price Legacy and the resigning officers, including:

the purchase by us of 2.3 million shares of common stock held by Mr. Sabin and certain related entities for a purchase price of \$4.00 per share, which occurred on October 23, 2003, and the application of the proceeds to pay the purchase price of the real estate transactions described below

the sublease of our interest in the San Diego/Rancho Bernardo office building and a grant of the right to purchase all of our rights and interest in the office building for an aggregate purchase price equal to \$14.7 million

the sale by us of real estate known as the Redhawk II land, including the assignment by Price Legacy of all plans and entitlements related to the Redhawk II land, for an aggregate purchase price equal to \$4.8 million

a lease by us of the office space in the San Diego/Rancho Bernardo office building that we use for our corporate headquarters at market rates and other terms to be mutually agreed by the parties

In April 2002, we entered into five Interest Rate Swap Agreements with Fleet Bank that are accounted for under SFAS No. 133. The combined notional amount was approximately \$161 million and the maturities ranged from 2009 to 2010. We paid monthly interest of LIBOR plus 3.08% to 3.77% and Fleet Bank assumed our fixed rates of 8.18% to 9.00%. These swaps hedged the fair value of fixed-rate debt. In October 2002, we sold the five swaps back to the counter party for \$13.8 million and will amortize the gain over the fixed-rate debt's remaining life through 2009 to 2010.

In July 2002, we paid \$3.4 million for four Interest Rate Cap Agreements with Wells Fargo Bank and Fleet Bank that are also accounted for under SFAS No. 133. The combined notional amount is \$152.0 million and the maturities range from 2009 to 2010. The agreements cap our variable rate risk on one month LIBOR interest at 7%.

Inflation

Because a substantial number of our leases contain provisions for rent increases based on changes in various consumer price indices, based on fixed rate increases, or based on percentage rent if tenant

sales exceed certain base amounts, we do not expect inflation to have a material impact on future net income or cash flow from developed and operating properties. In addition, substantially all retail leases are triple net, which means specific operating expenses and property taxes are passed through to the tenant.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to our operations result primarily from changes in short-term LIBOR interest rates. We do not have any significant foreign exchange or other material market risk.

Our exposure to market risk for changes in interest rates relates primarily to our variable interest rate debt. We enter into variable rate debt obligations to support general corporate purposes, including acquisitions, capital expenditures and working capital needs. We continuously evaluate our level of variable rate debt with respect to total debt and other factors, including our assessment of the current and future economic environment.

We had \$248.4 million in variable rate debt outstanding at December 31, 2003. Based upon these year-end debt levels, a hypothetical increase in interest rates by 100 basis points would increase interest expense by approximately \$2.5 million on an annual basis, and likewise

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decrease our earnings and cash flows. We cannot predict market fluctuations in interest rates and their impact on our variable rate debt, nor can there be any assurance that fixed rate long-term debt will be available to us at favorable rates, if at all. Consequently, future results may differ materially from the estimated adverse changes discussed above.

In July 2002, in order to mitigate our variable interest rate exposure, we acquired four interest rate caps, which hedge our exposure on \$152 million of variable rate debt. The hedges limit our exposure to the one-month LIBOR index associated with certain of our outstanding debt at 7%. To the extent the one-month LIBOR index exceeds 7%, the counter parties on the hedges will pay us the difference between the actual index and 7%.

The following table presents the scheduled principal payments on notes receivable and the scheduled principal payments on mortgages payable over the next five years and thereafter. The table also includes the average interest rates of the financial instruments during each respective year and the fair value of the notes receivable and mortgages payable. We determine the fair value of financial instruments through the use of discounted cash flow analysis using current interest rates for notes receivable with terms and credit characteristics similar to our existing portfolio and borrowings under terms similar to our existing mortgages payable.

	Expected Maturity Date (dollar amounts in thousands)						Total	Fair Value
	2004	2005	2006	2007	2008	Thereafter		
Notes receivable	\$ 10,311						\$ 10,311	\$ 10,311
Average interest rate	14%						14%	
Mortgages and notes payable	\$ 268,663	\$ 33,595	\$ 32,697	\$ 3,343	\$ 25,668	\$ 200,515	\$ 564,481	\$ 569,899
Average interest rate	3%	6%	4%	8%	3%	8%	5%	
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ITEM 8 Financial Statements and Supplementary Data

PRICE LEGACY CORPORATION CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	December 31	
	2003	2002
ASSETS		
Real estate assets		
Land and land improvements	\$ 410,207	\$ 446,331
Building and improvements	670,050	659,469
Construction in progress	582	35,235
	1,080,839	1,141,035
Property held for sale	70,988	
Less accumulated depreciation	(54,836)	(34,617)
	1,096,991	1,106,418
Investment in real estate joint ventures	4,113	26,019
Cash and cash equivalents	7,631	11,471
Restricted cash	11,288	8,787
Accounts receivable, net of allowance of \$1,415 and \$1,669	7,440	6,036
Notes receivable	10,311	62,788

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	December 31	
Interest receivable		16,032
Deferred rents	11,161	9,460
Other assets	21,953	26,007
Total assets	\$ 1,170,888	\$ 1,273,018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Mortgages and notes payable	\$ 483,675	\$ 487,811
Capital lease payable on property held for sale	11,706	
Revolving line of credit	69,100	60,300
Accounts payable and other liabilities	29,945	31,341
Total liabilities	594,426	579,452
Commitments and contingencies		
Minority interests	1,608	595
Stockholders' equity		
Series A preferred stock, cumulative, redeemable, \$0.0001 par value, 27,849,771 shares authorized, 27,434,166 shares issued and outstanding	399,615	399,615
Series B preferred stock, junior, convertible, redeemable, \$0.0001 par value, 27,458,855 shares authorized, 24,125,208 and 19,666,754 shares issued and outstanding	131,023	106,234
Common stock, \$0.0001 par value, 94,691,374 shares authorized, 34,761,657 and 37,255,748 issued and outstanding	3	4
Additional paid-in capital	176,431	184,720
Accumulated other comprehensive loss	(1,479)	(921)
Retained (deficit) earnings	(130,739)	3,319
Total stockholders' equity	574,854	692,971
Total liabilities and stockholders' equity	\$ 1,170,888	\$ 1,273,018

See accompanying notes.

PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31		
	2003	2002	2001
Rental revenues	\$ 126,123	\$ 114,208	\$ 70,948
Expenses			

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	Year Ended December 31		
Operating and maintenance	25,884	22,353	11,045
Property taxes	15,365	13,459	9,081
Depreciation and amortization	22,533	17,517	8,995
General and administrative	15,163	9,931	4,311
Provision for asset impairments	45,643	3,375	
	<u>124,588</u>	<u>66,635</u>	<u>33,432</u>
Total expenses			
Operating income	1,535	47,573	37,516
Interest and other			
Interest expense	(25,980)	(24,559)	(15,484)
Interest income	1,062	4,500	7,490
Equity in earnings (loss) of joint ventures	1,126	(121)	608
	<u>(23,792)</u>	<u>(20,180)</u>	<u>(7,386)</u>
Total interest and other			
(Loss) income from continuing operations	(22,257)	27,393	30,130
Discontinued operations:			
Income from operations	912	6,787	6,549
Provision for asset impairment	(46,997)	(2,528)	
Net (loss) gain on sale of real estate	(2,502)	9,284	
	<u>(48,587)</u>	<u>13,543</u>	<u>6,549</u>
(Loss) gain on discontinued operations			
Net (loss) income before (loss) gain on sale of real estate and investments	(70,844)	40,936	36,679
Net (loss) gain on sale of real estate and investments	(17)	291	1,322
	<u>(70,861)</u>	<u>41,227</u>	<u>38,001</u>
Net (loss) income			
Dividends to preferred stockholders	(49,821)	(48,849)	(37,442)
	<u>(120,682)</u>	<u>(7,622)</u>	<u>559</u>
Net (loss) income applicable to common stockholders			
(Loss) earnings per common share basic and diluted	\$ (3.30)	\$ (0.19)	\$ 0.03

See accompanying notes.

PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

Preferred Stock Series A	Preferred Stock Series B	Common Stock	Additional Paid-In	Accumulated Comprehensive	Retained Earnings	Notes Receivable
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	Preferred Stock Series A		Preferred Stock Series B		Shares	Amount	Capital	Loss	(Deficit)	Total
	Shares	Amount	Shares	Amount						
Balance at December 31, 2000		\$ 353,404		\$	13,309	\$ 1	112,587		(2,883)	\$ 463,109
Comprehensive income:										
Net income							\$	\$	\$ 38,001	38,001
Unrealized loss on marketable securities	23,869								(106)	(106)
Total comprehensive income										37,895
Merger Activities:										
Tender Offer					(808)		(5,653)			(5,653)
Shares owned by Excel Legacy cancelled					(12,151)	(1)				(1)
New shares issued in Merger Series B Preferred Stock and warrants issued			19,667	106,234	40,376	4	82,032		(9,365)	72,671
Issuance costs associated with Merger and tender offer							(2,817)			(2,817)
Series A Preferred Stock issued	3,081	46,211								46,211
Series A Preferred Stock options exercised	463						6,450			6,450
Dividends on Series A Preferred Stock									(34,618)	(34,618)
Balance at December 31, 2001	27,413	399,615	19,667	106,234	40,726	4	195,712	(106)	500	(9,365) 692,594
Comprehensive income:										
Net income									41,227	41,227
Unrealized loss on marketable securities									(47)	(47)
Unrealized loss on interest rate caps									(768)	(768)
Total comprehensive income										40,412
Series A Preferred Stock options exercised	21						303			303
Dividends on Series A Preferred Stock									(38,408)	(38,408)
Conversion of debentures to common stock					1		4			4
Officers' notes exchanged for common stock					(2,924)		(9,649)		9,365	(284)
Common stock repurchased					(547)		(1,650)			(1,650)
Balance at December 31, 2002	27,434	399,615	19,667	106,234	37,256	4	184,720	(921)	3,319	692,971
Comprehensive loss:										
Net loss									(70,861)	(70,861)
Unrealized gain on marketable securities									114	114
Unrealized loss on interest rate caps									(672)	(672)
Total comprehensive loss										(71,419)
Dividends on Series A Preferred Stock									(38,408)	(38,408)
Dividends on Series B Preferred Stock			4,458	24,789					(24,789)	
Common stock received in exchange for note					(257)		(780)			(780)
					(1,845)	(1)	(5,848)			(5,849)

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	Preferred Stock Series A		Preferred Stock Series B							
Common stock received in exchange for property and deposit on property										
Common stock repurchased and retired					(422)		(1,688)			(1,688)
Common stock options exercised					30		27			27
Balance at December 31, 2003	27,434	\$ 399,615	24,125	\$ 131,023	34,762	\$ 3	\$ 176,431	\$ (1,479)	\$ (130,739)	\$ 574,854

See accompanying notes.

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PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31		
	2003	2002	2001
Cash flows from operating activities			
Net (loss) income	\$ (70,861)	\$ 41,227	\$ 38,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,334	19,324	11,268
Net loss (gain) on sale of real estate and investments	2,519	(9,575)	(1,322)
Deferred rents	(1,701)	(3,033)	(3,075)
Compensation expense related to buy back of common stock and options	1,531		
Compensation expense related to retirement of officers' notes and common shares		2,836	
Provision for asset impairments	92,640	5,903	
Equity in (earnings) loss of joint ventures	(1,126)	121	(608)
Changes in operating assets and liabilities:			
Accounts receivable and other assets	1,670	(12,802)	(4,447)
Accounts payable and other liabilities	(3,353)	14,224	(5,234)
Net cash provided by operating activities	44,653	58,225	34,583
Cash flows from investing activities			
Deposits to restricted cash	(2,501)	(3,626)	(3,720)
Additions to real estate assets	(31,631)	(177,739)	(124,838)
Proceeds from sale of real estate assets	20,314	69,175	39,860
Contributions to real estate joint ventures	(385)	(1,622)	(2,584)
Distributions from real estate joint ventures	682	1,255	15,031
Advances on notes receivable	(14,677)	(4,675)	(33,171)
Payments on notes receivable	18,268	3,438	4,094
Purchase of treasury stock	(1,688)	(1,650)	
Cash received in connection with merger			5,526

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	Year Ended December 31		
	2003	2002	2001
Net cash used in investing activities	(11,618)	(115,444)	(99,802)
Cash flows from financing activities			
Advances from revolving lines of credit and notes payable	87,091	147,794	151,013
Repayments of revolving lines of credit and notes payable	(85,585)	(63,880)	(176,271)
Dividends paid	(38,408)	(38,408)	(34,618)
Proceeds from exercise of stock options	27	303	6,450
Proceeds from the issuance of Series B Preferred Stock and warrants			100,000
Payments for common stock under tender offer			(5,653)
Payments for offering costs for merger and tender offer			(2,817)
Net cash (used in) provided by financing activities	(36,875)	45,809	38,104
Net decrease in cash	(3,840)	(11,410)	(27,115)
Cash and cash equivalents at beginning of period	11,471	22,881	49,996
Cash and cash equivalents at end of period	\$ 7,631	\$ 11,471	\$ 22,881

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PRICE LEGACY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

	Year Ended December 31		
	2003	2002	2001
Supplemental disclosure:			
Cash paid for interest	\$ 27,466	\$ 27,105	\$ 14,334
Supplemental schedule of noncash operating and financing activities:			
Receipt of common shares in exchange for property	4,508		
Receipt of common shares in exchange for deposit on property	2,872		
Receipt of common shares in satisfaction of notes receivable	799		
Assumption of notes payable to acquire real estate assets		5,787	242,608
Reduction in notes receivable to acquire real estate assets		3,543	
Increase to treasury stock for reduction of officers' loans		9,649	
Decrease to officers' loans and interest receivable		12,485	
Net adjustment related to disposed real estate asset		733	
Reduction of note receivable from Excel Legacy to acquire interest in real estate joint venture			919
Reduction in senior notes and debentures for issuance of preferred stock			46,211
Reduction in notes payable for issuance of preferred stock and warrants			9,347
Purchase accounting adjustments associated with the Merger:			
Real estate assets			181,949
Other assets			79,214
Notes payable			161,560
Other liabilities			32,456

See accompanying notes.

PRICE LEGACY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and Significant Accounting Policies

Organization

Price Legacy Corporation (Price Legacy) operates as a real estate investment trust (REIT) incorporated in the state of Maryland. Our principal business is to operate, acquire, sell, and develop real property, primarily open-air shopping centers. On September 18, 2001, Price Legacy completed a merger between Price Enterprises, Inc. (PEI) and Excel Legacy Corporation (Excel Legacy) resulting in Excel Legacy becoming a wholly owned subsidiary of PEI (the Merger). The combined company operates as a REIT under the name Price Legacy Corporation.

Our subsidiaries include Excel Legacy Holdings, Inc. which has elected to be treated as a Taxable REIT Subsidiary (TRS). Other than certain activities related to lodging and health care facilities, a TRS may generally engage in any business. As a regular C corporation, a TRS is subject to federal income tax and state and local income taxes, where applicable.

Accounting Principles

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Consolidation

We consolidate the financial statements of our wholly-owned subsidiaries as well as all affiliates which we control and present them on a consolidated basis. The consolidated financial statements do not include the results of transactions between us and our subsidiaries or among our subsidiaries.

We account for our investment in unconsolidated joint ventures using the equity method of accounting. Under the equity method of accounting, the net equity investment of the joint ventures is reflected on the consolidated balance sheets and the consolidated statements of operations includes our share of net income or loss from the unconsolidated joint ventures.

In January 2003, the FASB issued FASB Interpretation No. (FIN) 46R, "Consolidation of Variable Interest Entities an interpretation of ARB No. 51." This interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition (ownership of a majority voting interest) of consolidation does not apply, and focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential reward from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements. We have adopted this standard and discuss it further in Note 4.

Real Estate Assets and Depreciation

We record real estate assets at historical cost and adjust them for recognition of impairment losses.

We expense ordinary repairs and maintenance costs incurred, which include building painting, parking lot repairs, etc. We capitalize major replacements and improvements, which include HVAC equipment, roofs, etc., and depreciate them over their estimated useful lives.

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We compute real estate asset depreciation on a straight-line basis over their estimated useful lives, as follows:

Land improvements	40 years
Building and improvements	20 to 40 years
Tenant improvements	Lesser of the lease term or 10 years
Fixtures and equipment	3-7 years

We review long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recovered. We consider assets to be impaired and write them down to fair value if their expected associated future undiscounted cash flows are less than their carrying amounts. Generally, we estimate fair value using discounted cash flow, direct capitalization or market comparison analyses. The process of evaluating for impairment requires estimates as to future events and conditions, which are subject to varying market and economic factors.

Construction in progress assets are transferred to the appropriate real estate investment category and depreciation is recorded once the asset is substantially complete and ready for its intended use. We capitalize interest incurred during the construction period of certain assets and this interest is depreciated over the lives of those assets. The following table shows interest expense and the amount capitalized (amounts in thousands):

	Year Ended December 31		
	2003	2002	2001
Interest incurred	\$ 28,240	\$ 27,688	\$ 18,379
Interest capitalized	1,738	2,001	1,586

Pre-development costs that are directly related to specific construction projects are capitalized as incurred. We expense these costs to the extent they are unrecoverable or it is determined that the related project will not be pursued.

Revenue Recognition

Rental revenues include: (1) minimum annual rentals, adjusted for the straight-line method for recognition of fixed future increases; (2) additional rentals, including recovery of property operating expenses, and certain other expenses which we accrue in the period in which the related expense occurs; and (3) percentage rents based on the level of sales achieved by the lessee which are recognized when earned.

Gain or loss on sale of real estate is recognized when the sale contract is executed, title has passed, payment is received, and we no longer have continuing involvement in the asset.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of less than three months when purchased to be cash and cash equivalents.

We are required to maintain reserves with certain lenders for property taxes, insurance and capital expenditures. The aggregate amounts of these reserves held by lenders were approximately \$11.3 million at December 31, 2003 and \$8.8 million at December 31, 2002. These amounts are reflected as restricted cash on the Consolidated Balance Sheets.

Our restricted cash balances at December 31, 2003 and 2002 include \$2.4 million of restricted funds which represent the proceeds from the sale of vacant land at our property in Hollywood/Oakwood Plaza, FL. The funds will be held by the lender until the debt is repaid in 2009.

Goodwill and Other Intangible Assets

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We follow Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets other than those acquired in a business combination. SFAS 142 was effective for the fiscal year beginning after December 31, 2001. In applying SFAS 142, we first considered the fair value of the land and improvements on an "as-if-vacant" basis. In estimating the fair value on an "as-if-vacant" basis, we considered a variety of factors including local market conditions for similar quality assets, historical occupancy and absorption history for similar assets in similar markets, and expected future cash flows (including absorption estimates). We then considered the impact of above-market, at-market and below-market operating leases in place at the property acquired. As a result of adopting SFAS 142, we recorded intangible assets in connection with the purchases of our properties in 2002. Intangible assets represent values of in-place leases at the time of purchase and are included in other assets on our Consolidated Balance Sheets at December 31, 2003 and December 31, 2002.

Leasing Costs

We capitalize costs associated with leasing space to tenants and amortize leasing costs using the straight-line method over the initial terms of the related tenant leases.

Financial Instruments

The carrying amounts reflected in our Consolidated Balance Sheets for cash and cash equivalents, receivables, all liabilities, and minority interest approximate their fair values. In making these assessments we used estimates and market rates for similar instruments.

Authorized Stock

As of December 31, 2003, our authorized stock consisted of 150 million shares of capital stock of which 94.7 million shares have been designated as common stock, par value \$0.0001 per share; 27.8 million shares have been designated as 8³/₄% Series A Cumulative Redeemable Preferred Stock, par value \$.0001 per share; and 27.5 million shares have been designated as 9% Series B Junior Convertible Redeemable Preferred Stock, par value \$.0001 per share.

We discuss our authorized stock further in Note 17.

Income Taxes

We intend to continue to meet all conditions necessary to qualify as a REIT under the Internal Revenue Code. To qualify as a REIT, we are required to pay dividends of at least 90% of our REIT taxable income, determined without regard to the dividends-paid deduction and by excluding any net capital gain each year and meet certain other criteria. As a qualifying REIT, we will not be subject to tax on income distributed to our stockholders, but we will be subject to tax on our income to the extent it is not distributed. Also, if we sell properties that would result in a significant tax liability, we intend to use tax deferred exchange transactions so we will not be taxed on potential gains. The reported amounts of our net assets were more than their tax basis for Federal tax purposes by approximately \$91.7 million (unaudited) as of December 31, 2003 and \$137.6 million (unaudited) as of December 31, 2002.

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The following table shows the tax status of our preferred dividend payments between ordinary income, return of capital and capital gains:

	Year Ended December 31		
	2003	2002	2001
Ordinary income	27.5%	97.1%	97.1%
Capital gain		2.9%	2.9%
Return of capital	72.5%		

Reclassifications

Certain reclassifications have been reflected in the consolidated financial statements in order to conform with the current year presentation.

Use of Estimates

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Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We continually review our estimates and make adjustments as necessary, but actual results could differ from those envisioned when these estimates were made.

Comprehensive Income

We follow Statement of Financial Accounting Standards (SFAS) No. 130 "Reporting Comprehensive Income." This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. The components of comprehensive income for us include net income, unrealized gains (losses) on interest rate caps and unrealized gains (losses) on investments.

Derivative Financial Instruments

We follow SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. In the normal course of business, we may use derivative financial instruments to manage or hedge interest rate risk. When entered into, we formally designate and document the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. We assess, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of correlation between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair value or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

To determine the fair value of derivative instruments, we use 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 such value may never actually be realized.

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Asset Disposal

We follow SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A long-lived asset to be sold is classified as held for sale when management has committed to a plan to sell the asset, the asset is available for sale in its present condition, a program to locate a buyer has been initiated, sale of the asset is probable within one year, and the asset is being marketed for sale at a price that is reasonable in relation to its current fair value. We no longer record depreciation on assets held for sale. We consider an asset to be impaired and write it down to fair value if the fair value less cost to sell is less than the carrying amount. In accordance with SFAS 144, the results of operations and the gain or loss on disposition of operating properties sold after January 1, 2002 or held for sale at December 31, 2003 have been presented in discontinued operations for all periods presented on the Consolidated Statements of Operations.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123." SFAS 148 addresses transition provisions for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123. This statement has not had a significant impact on our consolidated financial statements.

We do not record compensation expense for stock options. The following table summarizes results as if we had recorded compensation expense under the provisions of SFAS 123, as amended by SFAS 148, for our option grants (amounts in thousands, except per share data).

Year Ended December 31		
2003	2002	2001

Net (loss) income applicable to common stockholders:

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Year Ended December 31

As reported	\$	(120,682)	\$	(7,622)	\$	559
Deduct: stock based compensation expense determined under fair value method		(616)		(1,513)		(2,429)
Pro forma	\$	(121,298)	\$	(9,135)	\$	(1,870)
Net (loss) income per share basic and diluted:						