WACHOVIA CORP NEW
Form 424B5
April 03, 2006
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-123311

PROSPECTUS SUPPLEMENT

(To prospectus dated May 13, 2005)

$5,458,450

Wachovia Corporation

90% Principal Protected Notes

Linked to the Nikkei 225® Index

due April 1, 2011

Offering Currency Protection

Issuer:	Wachovia Corporation
Principal Amount:	Each note will have a principal amount of $10. Each note will be offered at an initial public offering price of $10.
Maturity Date:	April 1, 2011
Interest:	Wachovia will not pay you interest during the term of the notes.
Market Measure:	The return on the notes, in excess of the minimum payment at maturity, if any, is linked to the performance of the Nikkei 225® Index.
Maturity Payment Amount:	At maturity, for each note you own, you will receive a cash payment equal to the sum of the principal amount of the note and the Index performance amount, subject to the minimum payment at maturity of $9.00 per note. The Index performance amount will equal the product of the principal amount of the note, the percentage change in the level of the Index and the Index participation factor. The Index participation factor will be 125% if the final Index level is greater than the initial Index level, and 100% if the final Index level is less than or equal to the initial Index level. *If the final Index level is less than the initial Index level, the Index performance amount will be negative and the amount you receive at maturity will be less than the principal amount of the notes in proportion to the decline in the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity.*
Listing:	The notes will not be listed on any securities exchange, the Nasdaq National Market or any electronic communications network.
Pricing Date:	March 30, 2006
Expected Settlement Date:	April 6, 2006
CUSIP number:	929903714

For a detailed description of the terms of the notes, see Summary Information beginning on page S-1 and Specific Terms of the Notes beginning on page S-11.

Investing in the notes involves risks. See Risk Factors beginning on page S-6.

	Per Note	Total
Public Offering Price	$ 10.00	$ 5,458,450.00
Underwriting Discount and Commission(1)	$ 0.30	163,628.50
Proceeds to Wachovia Corporation(1)	$ 9.70	$ 5,294,821.50

(1) If the notes are sold on an agency basis only, the underwriting discount and commission will be $0.275 per note, as described under Supplemental Plan of Distribution . In that case, proceeds to Wachovia will be $9.725 per note.

The notes solely represent a senior unsecured debt obligation of Wachovia and are not the obligation of, or guaranteed by, any other entity. The notes are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission nor any state securities commission has approved nor disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Wachovia may use this prospectus supplement in the initial sale of the notes. In addition, Wachovia Capital Markets, LLC or any other broker-dealer affiliate of Wachovia may use this prospectus supplement in a market-making or other transaction in any note after its initial sale. ***Unless Wachovia or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus supplement is being used in a market-making transaction.***

Wachovia Securities

The date of this prospectus supplement is March 30, 2006

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Unless otherwise indicated, you may rely on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriter has authorized anyone to provide information different from that contained in this prospectus supplement and the accompanying prospectus. When you make a decision about whether to invest in the notes, you should not rely upon any information other than the information in this prospectus supplement and the accompanying prospectus. Neither the delivery of this prospectus supplement nor sale of the notes means that information contained in this prospectus supplement or the accompanying prospectus is correct after their respective dates. This prospectus supplement and the accompanying prospectus are not an offer to sell or solicitation of an offer to buy the notes in any circumstances under which the offer of solicitation is unlawful.

-i-

Table of Contents

SUMMARY INFORMATION

This summary includes questions and answers that highlight selected information from this prospectus supplement and the accompanying prospectus to help you understand the 90% Principal Protected Notes Linked to the Nikkei 225® Index due April 1, 2011 Offering Currency Protection (the notes). You should carefully read this prospectus supplement and the accompanying prospectus to fully understand the terms of the notes, the Nikkei 225® Index, which we refer to as the Index , and the tax and other considerations that are important to you in making a decision about whether to invest in the notes. You should carefully review the section Risk Factors in this prospectus supplement and the accompanying prospectus, which highlights certain risks associated with an investment in the notes, to determine whether an investment in the notes is appropriate for you.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to Wachovia , we , us and our or similar references mean Wachovia Corporation and its subsidiaries. Wachovia Capital Markets, LLC is an indirect, wholly owned subsidiary of Wachovia Corporation. Wachovia Corporation conducts its investment banking, capital markets and retail brokerage activities through its various broker-dealer, bank and non-bank subsidiaries, including Wachovia Capital Markets, LLC, under the trade name Wachovia Securities . Any reference to Wachovia Securities in this prospectus supplement does not, however, refer to Wachovia Securities, LLC, member of the New York Stock Exchange and the Securities Investor Protection Corporation or Wachovia Securities Financial Network, LLC, member of the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corporation, each of which is a broker-dealer affiliates of Wachovia Corporation and Wachovia Capital Markets, LLC. Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to WBNA mean Wachovia Bank, National Association. All references to this prospectus supplement mean the pricing supplement contemplated in the accompanying prospectus.

What are the notes?

The notes offered by this prospectus supplement will be issued by Wachovia Corporation and will mature on April 1, 2011. The maturity payment amount of the notes, in excess of the minimum payment at maturity, if any, will be linked to the performance of the Index. The notes will bear no interest and no other payments will be made until maturity.

As discussed in the accompanying prospectus, the notes are debt securities and are part of a series of debt securities entitled Medium-Term Notes, Series G that Wachovia Corporation may issue from time to time. The notes will rank equally with all other unsecured and unsubordinated debt of Wachovia Corporation. For more details, see Specific Terms of the Notes beginning on page S-11.

Each note will have a principal amount of $10. Each note will be offered at an initial public offering price equal to $10. You may transfer only whole notes. Wachovia Corporation will issue the notes in the form of a global certificate, which will be held by The Depository Trust Company, also known as DTC, or its nominee. Direct and indirect participants in DTC will record your ownership of the notes.

Are the notes principal protected?

The notes are not fully principal protected, however, the notes guarantee a return of 90% of the principal amount of the notes at maturity. ***If the final Index level is less than the initial Index level, the amount you will receive at maturity will be less than the principal amount of the notes in proportion to the decline in the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity of $9.00. Accordingly, if the level of the Index declines in this manner you will lose some of your principal.***

What will I receive upon maturity of the notes?

At maturity, for each note you own, you will receive a cash payment equal to the sum of the principal amount of the note and the Index performance amount, subject to the minimum payment at maturity of $9.00 per note. The Index performance amount will equal the product of the principal amount of the note, the percentage change in the level of the Index and the Index participation factor. *If the final Index level is less than the initial Index level, the Index performance amount will be negative and the amount you receive at maturity will be less than the principal amount of the notes in*

Table of Contents

proportion to the decline in the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity.

Determination of the Index performance amount

The Index performance amount per note will be determined by the calculation agent as follows:

$$\$10 \times \left(\frac{\text{final Index level} \quad \text{initial Index level}}{\text{initial Index level}} \right) \times \text{Index participation factor}$$

The initial Index level is 17,059.66, the closing level of the Index on March 31, 2006.

The final Index level will be determined by the calculation agent and will equal the closing level of the Index on the valuation date.

The Index participation factor will be 125% if the final Index level is greater than the initial Index level, and 100% if the final Index level is less than or equal to the initial Index level.

The valuation date means the fifth trading day prior to the maturity date. However, if that day occurs on a day that is a disrupted day, then the valuation date will be postponed until the next succeeding trading day that is not a disrupted day; provided that in no event will the valuation date be postponed by more than five trading days. If the valuation date is postponed to the last possible day but that day is a disrupted day or is not a trading day, that date will nevertheless be the valuation date. *If the valuation date is postponed, then the maturity date of the notes will be postponed by an equal number of trading days.*

The closing level on any trading day will equal the official closing level (second session) of the Index or any successor index (as defined under Specific Terms of the Notes Discontinuation of the Index; Adjustments to the Index below) published by the Index Sponsor at the regular weekday close of trading on that trading day. In certain circumstances, the closing level will be based on the alternate calculation of the Index described under Specific Terms of the Notes Discontinuation of the Index; Adjustments to the Index below.

A trading day means any day on which each exchange and related exchange is scheduled to be open for its respective regular trading sessions.

A disrupted day means any trading day on which a relevant exchange or related exchange fails to open for trading during its regular trading session or on which a market disruption event has occurred with respect to the Index.

If the final Index level is less than the initial Index level, the amount you will receive at maturity will be less than the principal amount of the notes in proportion to the decline in the value of the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity.

Hypothetical Examples

Set forth below are four hypothetical examples of the calculation of the maturity payment amount.

Initial Index level: 17,059.66

Index participation factor: 125%.

Example 1

The hypothetical final Index level is 50% of the initial Index level:

Hypothetical final Index level: 8,529.83

Table of Contents

Index performance amount (per note):

$$\$10 \times \left(\frac{8{,}529.83 \quad 17{,}059.66}{17{,}059.66} \right) \times 100\% \quad = \quad -\$5.00$$

Maturity payment amount (per note) = \$10.00 - \$5.00 = \$5.00

(subject to the minimum payment at maturity of \$9.00)

Since the hypothetical final Index level is less than the initial Index level, the maturity payment amount would be less than the principal amount of your note. If the principal amount of each note were not protected by the minimum payment at maturity, the maturity payment amount would be \$5.00 per note. However, since the maturity payment amount is subject to the minimum payment at maturity, which is \$9.00, the maturity payment amount would equal \$9.00 per note.

Example 2

The hypothetical final Index level is 96% of the initial Index level:

Hypothetical final Index level: 16,377.27

Index performance amount (per note):

$$\$10 \times \left(\frac{16{,}377.27 \quad 17{,}059.66}{17{,}059.66} \right) \times 100\% \quad = \quad -\$0.40$$

Maturity payment amount (per note) = \$10.00   \$0.40 = \$9.60

Since the hypothetical final Index level is less than the initial Index level, the maturity payment amount would be less than the principal amount of your note. In the above example, the maturity payment amount would be 4% lower than the principal amount of each note, which is equal to the performance of the Index at maturity of the notes as measured by the final Index level relative to the initial Index level.

Example 3

The hypothetical final Index level is 105% of the initial Index level:

Hypothetical final Index level: 17,912.64

Index performance amount (per note) =

$$\$10 \times \left(\frac{17{,}912.64 \quad 17{,}059.66}{17{,}059.66} \right) \times 125\% \quad = \quad \$0.625$$

Maturity payment amount (per note) = \$10.00 + \$0.625 = \$10.625

Since the hypothetical final Index level is greater than the initial Index level, the maturity payment amount would be greater than the principal amount of your note. In the above example, the maturity payment amount would be 6.25% higher than the principal amount of each note, which is equal to the performance of the Index at maturity of the notes as measured by the final Index level relative to the initial

Index level, multiplied by the Index participation factor.

Table of Contents

Example 4

The hypothetical final Index level is 150% of the initial Index level:

Hypothetical final Index level: 25,589.49

Index performance amount (per note) =

$$\$10 \times \left(\frac{25{,}589.49 \quad 17{,}059.66}{17{,}059.66} \right) \times 125\% = \$6.25$$

Maturity payment amount (per note) = $10.00 + $6.25 = $16.25

Since the hypothetical final Index level is greater than the initial Index level, the maturity payment amount would be greater than the principal amount of your note. In the above example, the maturity payment amount would be 62.50% higher than the principal amount of each note, which is equal to the performance of the Index at maturity of the notes as measured by the final Index level relative to the initial Index level, multiplied by the Index participation factor.

Who should or should not consider an investment in the notes?

We have designed the notes for investors who are willing to hold the notes to maturity, who seek to protect their investment by receiving at least 90% of the principal amount of their investment at maturity, who want to participate in the appreciation of the Index measured over the term of the notes at a rate of 125% and who also want to participate generally in the performance of the Index measured over the term of the notes without exposure to the fluctuation in currency exchange rates between the Japanese Yen and the U.S. Dollar.

The notes are not designed for, and may not be a suitable investment for, investors who are unable or unwilling to hold the notes to maturity, who require an investment that yields a regular return and full principal protection, or who seek an investment with a return linked to the performance of the Index with exposure to the fluctuation in currency exchange rates between the Japanese Yen and the U.S. Dollar and are willing to make an investment that is exposed to the full downside performance risk of the Index.

What will I receive if I sell the notes prior to maturity?

The market value of the notes may fluctuate during the term of the notes. Several factors and their interrelationship will influence the market value of the notes, including the level of the Index, dividend yields of the component stocks underlying the Index, the time remaining to the maturity date, interest rates and the volatility of the Index. The notes are 90% principal protected only if held to maturity. If you sell your notes prior to maturity, you may have to sell them at a discount and you will not have partial principal protection. Depending on the impact of these factors, you may receive less than the principal amount in any sale of your notes before the maturity date and less than what you would have received had you held the notes until maturity. For more details, see Risk Factors Many factors affect the market level of the notes .

Who publishes the Index and what does the Index measure?

The Index measures the composite price performance of selected Japanese stocks and is calculated, published and disseminated by Nihon Keizai Shimbun, Inc. (the Index Sponsor or NKS). The Index is currently based on 225 underlying stocks trading on the Tokyo Stock Exchange (the TSE) representing a broad cross-section of Japanese industries. Stocks listed in the First Section of the TSE are among the most actively traded stocks on the TSE. All 225 underlying stocks are stocks listed in the First Section.

The Index is determined, calculated and maintained by the Index Sponsor without regard to the notes.

You should be aware that an investment in the notes does not entitle you to any ownership interest in the stocks of the companies included in the Index. For a detailed discussion of the Index, see The Nikkei 225® Index beginning on page S-15.

How has the Index performed historically?

You can find a table with the high, low and closing levels of the Index during each calendar quarter from calendar year 2002 to the present in the section entitled The Nikkei 225® Index Historical Closing Levels of the Index in this prospectus supplement. We obtained the historical information from Bloomberg Financial Markets without independent verification. You should not take past performance of the Index as an indication of how the Index will perform in the future.

What about taxes?

The notes will be treated as debt instruments subject to special rules governing contingent payment obligations for United States federal income tax purposes. If you are a U.S. individual or taxable entity, you generally will be required to pay taxes on ordinary income from the notes over their term based on the comparable yield for the notes, even though you will not receive any payments from us until maturity. This comparable yield is determined solely to calculate the amount on which you will be taxed prior to maturity and is neither a prediction nor a guarantee of what the actual yield will be. In addition, any gain you may recognize on the sale or maturity of the notes will be taxed as ordinary interest income. If you purchase the notes at a time other than the original issue date, the tax consequences to you may be different.

For further discussion, see Supplemental Tax Considerations beginning on page S-19.

Will the notes be listed on a stock exchange?

The notes will not be listed or displayed on any securities exchange, the Nasdaq National Market or any electronic communications network. There can be no assurance that a liquid trading market will develop for the notes. Accordingly, if you sell your notes prior to the maturity date, you may have to sell them at a substantial loss. You should review the section entitled Risk Factors There may not be an active trading market for the notes in this prospectus supplement.

Are there any risks associated with my investment?

Yes, an investment in the notes is subject to significant risks. We urge you to read the detailed explanation of risks in Risk Factors beginning on page S-6.

How to reach us

You may reach us by calling 1-888-215-4145 or 1-212-214-6282 and asking for the Investment Solutions Group.

Table of Contents

RISK FACTORS

An investment in the notes is subject to the risks described below, as well as the risks described under Risk Factors Risks Related to Indexed Notes in the accompanying prospectus. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in the component stocks, i.e., the common stocks underlying the Index to which your notes are linked. You should carefully consider whether the notes are suited to your particular circumstances.

The notes are intended to be held to maturity; your principal is only partially protected if you hold your notes to maturity

You will receive at least 90% of the principal amount of your notes if you hold your notes to maturity. If you sell your notes in the secondary market prior to maturity, you will not receive partial principal protection on the notes you sell. You should be willing to hold your notes to maturity.

You will not receive interest payments on the notes

You will not receive any periodic interest payments on the notes and, at maturity, if the final Index level has declined sufficiently, you may not receive any return in excess of 90% of the principal amount of your notes.

Your yield may be lower than the yield on a standard debt security of comparable maturity

The yield that you will receive on your notes, which could be negative, may be less than the return you could earn on other investments. Even if your yield is positive, your yield may be less than the yield you would earn if you bought a standard senior non-callable debt security of Wachovia with the same maturity date. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money. Unlike standard senior non-callable debt securities, the notes do not guarantee the return of the notes full principal amount at maturity.

If the final Index level is less than the initial Index level, the maturity payment amount with respect to your notes will be less than the principal amount of the notes in proportion to the decline in the value of the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity. This will be true even if the closing level of the Index on some date or dates prior to the valuation date may have been greater than the initial Index level, because the maturity payment amount will be calculated only on the basis of the closing level of the Index (or otherwise determined by the calculation agent, in the case of a market disruption event) on the valuation date. You should therefore be prepared to realize no return over an amount equal to 90% of the principal amount of your notes at maturity.

Owning the notes is not the same as owning the common stocks underlying the Index

The return on your notes will not reflect the return you would realize if you actually owned and held the common stocks underlying the Index for a similar period. First, because the maturity payment amount will be determined based on the performance of the Index which is a price-return index, to the extent that the maturity payment amount is greater than the minimum payment at maturity, the return on the notes will not take into account the value of any dividends that may be paid on the common stocks underlying the Index. Second, the maturity payment amount will be determined without taking into consideration any change in the currency exchange rates between the Japanese Yen and the U.S. Dollar from the trading day immediately following the pricing date to the valuation date for the notes. A direct investment in the common stocks underlying the Index would benefit from any strengthening of the Japanese Yen versus the U.S. Dollar from the trading day immediately following the pricing date to the valuation date. In addition, as a holder of the notes, you will not be entitled to receive any dividend payments or other distributions on the common stocks underlying the Index, nor will you have voting rights or any other rights that holders of the common stocks underlying the Index may have. Even if the level of the Index increases above the initial Index level during the term of the notes, the market value of the notes may not increase by the same amount. It is also possible for the level of the Index to increase while the market value of the notes declines.

Table of Contents

There may not be an active trading market for the notes

The notes will not be listed or displayed on any securities exchange, the Nasdaq National Market or any electronic communications network. There can be no assurance that a liquid trading market will develop for the notes. The development of a trading market for the notes will depend on our financial performance and other factors such as the increase, if any, in the level of the Index. Even if a secondary market for the notes develops, it may not provide significant liquidity and transaction costs in any secondary market could be high. As a result, the difference between bid and asked prices for your note in any secondary market could be substantial. If you sell your notes before maturity, you may have to do so at a discount from the initial public offering price, and, as a result, you may suffer substantial losses.

Wachovia Capital Markets, LLC and other broker-dealer affiliates of Wachovia currently intend to make a market for the notes, although they are not required to do so and may stop any market-making activities at any time. As market makers, trading of the notes may cause Wachovia Capital Markets, LLC or any other broker-dealer affiliates of Wachovia to have long or short positions in the notes. The supply and demand for the notes, including inventory positions of market makers, may affect the secondary market for the notes.

Many factors affect the market value of the notes

The market value of the notes will be affected by factors that interrelate in complex ways. It is important for you to understand that the effect of one factor may offset the increase in the market value of the notes caused by another factor and that the effect of one factor may compound the decrease in the market value of the notes caused by another factor. For example, a change in the volatility of the Index may offset some or all of any increase in the market value of the notes attributable to another factor, such as an increase in the level of the Index. In addition, a change in interest rates may offset other factors that would otherwise change the level of the Index and, therefore, may change the market value of the notes. We expect that the market value of the notes will depend substantially on the amount, if any, by which the final Index level exceeds or does not exceed the initial Index level. If you choose to sell your notes when the level of the Index exceeds the initial Index level, you may receive substantially less than the amount that would be payable at maturity based on this level because of the expectation that the level of the Index will continue to fluctuate until the final Index level is determined. We believe that other factors that may influence the value of the notes include:

- the volatility (the frequency and magnitude of changes in level) of the Index and in particular market expectations regarding the volatility of the Index;
- interest rates in the U.S. and Japanese markets;
- the dividend yields of the common stocks included in the Index;
- the relationship between changes in U.S. dollar/Japanese Yen exchange rates and the level of the Index;
- our creditworthiness, as represented by our credit ratings or as otherwise perceived in the market;
- changes that affect the Index, such as additions, deletions or substitutions;
- the time remaining to maturity; and
- geopolitical, economic, financial, political, regulatory or judicial events as well as other conditions may affect the common stocks included in the Index.

Wachovia and its affiliates have no affiliation with the Index Sponsor and are not responsible for its public disclosure of information

Wachovia and its affiliates are not affiliated with the Index Sponsor in any way (except for licensing arrangements discussed below under Nikkei 225® Index) and have no ability to control or predict any of its actions, including any

Table of Contents

errors in or discontinuation of disclosure regarding any of their methods or policies relating to the calculation of the level of the Index. If the Index Sponsor discontinues or suspends the calculation of the Index, it may become difficult to determine the market value of the notes or the maturity payment amount. The calculation agent may designate a successor index selected in its sole discretion. If the calculation agent determines in its sole discretion that no successor index comparable to the Index exists, the amount you receive at maturity will be determined by the calculation agent in its sole discretion. See Specific Terms of the Notes Market Disruption Event on page S-13 and Specific Terms of the Notes Discontinuation of the Index; Adjustments to the Index on page S-12. The Index Sponsor is not involved in the offer of the notes in any way and has no obligation to consider your interest as an owner of notes in taking any actions that might affect the value of your notes.

We have derived the information about the Index Sponsor and the Index in this prospectus supplement from publicly available information, without independent verification. Neither we nor any of our affiliates assumes any responsibility for the adequacy or accuracy of the information about the Index Sponsor or the Index contained in this prospectus supplement. You, as an investor in the notes, should make your own investigation into the Index Sponsor and the Index.

Historical levels of the Index should not be taken as an indication of the future levels of the Index during the term of the notes

The trading prices of the stocks underlying the Index will determine the level of the Index at any given time. The stocks underlying the Index have performed differently in the past and are expected to perform differently in the future. As a result, it is impossible to predict whether the level of the Index will rise or fall. Trading prices of the stocks underlying the Index will be influenced by complex and interrelated political, economic, financial and other factors that can affect the issuers of the stocks underlying the Index.

The maturity payment amount for the securities will not be adjusted for any change in the currency exchange rates between the Japanese yen and the U.S. dollar

Although the common stocks underlying the Index are traded in Japanese yen and the securities, which are linked to the Index, are denominated in U.S. dollars, the maturity payment amount will not be adjusted for any change in the currency exchange rate between the Japanese yen and the U.S. dollar. Changes in exchange rates, however, may reflect changes in the Japanese economy that in turn may affect the maturity payment amount for the securities. The maturity payment amount will be based solely on the principal amount of the securities plus the percentage change in the level of the Index from the initial Index level to the final Index level, which may be negative, subject to the minimum payment at maturity.

An investment in the securities is subject to risks associated with the Japanese securities markets

The common stocks underlying the Index have been issued by Japanese companies. An investment in securities linked to the value of Japanese equity securities involves particular risks. The Japanese securities markets may be more volatile than U.S. or other securities markets and market developments may affect Japanese markets differently from U.S. or other securities markets. Direct or indirect government intervention to stabilize the Japanese securities markets, as well as cross shareholdings in Japanese companies, may affect trading prices and volumes in those markets. Also, there is generally less publicly available information about Japanese companies than about those U.S. companies that are subject to the reporting requirements of the U.S. Securities and Exchange Commission, and Japanese companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. Securities prices in Japan are subject to political, economic, financial and social factors that apply in Japan. These factors, which could negatively affect the Japanese securities markets, include the possibility of recent or future changes in the Japanese government s economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other Japanese laws or restrictions applicable to Japanese companies or investments in Japanese equity securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, the Japanese economy may differ favorably or unfavorably from the U.S. economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency. The Japanese economy has been troubled by negative or low rates of growth for many years. Many Japanese common stocks have performed poorly over an extended period.

Table of Contents

Purchases and sales by us and our affiliates may affect the return on the notes

As described below under Use of Proceeds and Hedging on page S-21, we or one or more of our affiliates may hedge our obligations under the notes by purchasing stocks underlying the Index, futures or options on the Index or stocks underlying the Index, or exchange-traded funds or other derivative instruments with returns linked or related to changes in the trading prices of stocks underlying the Index or the levels of the Index, and we may adjust these hedges by, among other things, purchasing or selling stocks underlying the Index, futures, options, or exchange-traded funds or other derivative instruments with returns linked to the Index or the stocks underlying the Index at any time. Although they are not expected to, any of these hedging activities may adversely affect the trading prices of stocks underlying the Index and/or the levels of the Index and, therefore, the market value of the notes. It is possible that we or one or more of our affiliates could receive substantial returns from these hedging activities while the market value of the notes declines.

The inclusion of commissions and projected profits from hedging in the initial public offering price is likely to adversely affect secondary market prices

Assuming no change in market conditions or any other relevant factors, the price, if any, at which Wachovia is willing to purchase the notes in secondary market transactions will likely be lower than the initial public offering price, since the initial public offering price included, and secondary market prices are likely to exclude, commissions paid with respect to the notes, as well as the projected profit included in the cost of hedging our obligations under the notes. In addition, any such prices may differ from values determined by pricing models used by Wachovia, as a result of dealer discounts, mark-ups or other transactions.

Additional potential conflicts of interest could arise

Our subsidiary, WBNA, is our agent for the purposes of calculating the final Index level and the maturity payment amount. Under certain circumstances, WBNA s role as our subsidiary and its responsibilities as calculation agent for the notes could give rise to conflicts of interest. These conflicts could occur, for instance, in connection with its determination as to whether the level of the Index can be calculated on a particular trading day, or in connection with judgments that it would be required to make in the event of a discontinuance of the Index. See the sections entitled Specific Terms of the Notes Discontinuation of the Index; Adjustments to the Index on page S-12, Specific Terms of the Notes Market Disruption Event on page S-13. WBNA is required to carry out its duties as calculation agent in good faith and using its reasonable judgment.

Wachovia or its affiliates may presently or from time to time engage in business with one or more of the issuers of component stocks included in the Index. This business may include extending loans to, or making equity investments in, those companies or providing advisory services to those companies, including merger and acquisition advisory services. In the course of business, Wachovia or its affiliates may acquire non-public information relating to these companies and, in addition, one or more affiliates of Wachovia may publish research reports about these companies. Wachovia does not make any representation to any purchasers of the notes regarding any matters whatsoever relating to the issuers of component stocks included in the Index. Any prospective purchaser of the notes should undertake an independent investigation of these companies as in its judgment is appropriate to make an informed decision regarding an investment in the notes. The composition of the issuers of component stock included in the Index does not reflect any investment or sell recommendations of Wachovia or its affiliates.

The calculation agent may postpone the determination of the final Index level and the maturity date if a market disruption event occurs on the valuation date

The valuation date and, therefore, the determination of the final Index level may be postponed if the calculation agent determines that a market disruption event has occurred or is continuing on the valuation date with respect to the Index. If a postponement occurs, the calculation agent will use the closing level of the Index on the next succeeding trading day on which no market disruption event occurs or is continuing as the final Index level. As a result, the maturity date for the notes would be postponed. You will not be entitled to compensation from us or the calculation agent for any loss suffered as a result of the occurrence of a market disruption event, any resulting delay in payment or any change in the level of the Index after the valuation date. See Specific Terms of the Notes Market Disruption Event beginning on page S-13.

U.S. taxpayers will be required to pay taxes on the notes each year

The notes will be treated as debt instruments subject to special rules governing contingent payment obligations for United States federal income tax purposes. If you are a U.S. person, you generally will be required to pay taxes on ordinary income from the notes over their term based upon the comparable yield for the notes, even though you will not receive any payments from us until maturity. The comparable yield is determined solely to calculate the amounts you will be taxed on prior to maturity and is neither a prediction nor a guarantee of what the actual yield will be. In addition, any gain you may recognize upon the sale or maturity of the notes will be taxed as ordinary income. Any loss you may recognize upon the sale of the notes will be ordinary loss to the extent of interest you included as income in the current or previous taxable years in respect of the notes, and thereafter, capital loss. If you hold your notes until maturity and the maturity payment is less than the projected payment at maturity, the difference will first reduce interest that would otherwise accrue in respect of the notes in such taxable year, and any remainder will be ordinary loss to the extent you previously accrued interest income in respect of the notes and thereafter will be capital loss. If you purchase the notes at a time other than the original issue date, the tax consequences may be different. You should consult your tax advisor about your own tax situation.

For further information, see Supplemental Tax Considerations on page S-19.

Certain considerations for insurance companies and employee benefit plans

A fiduciary of a pension plan or other employee benefit plan that is subject to the prohibited transaction rules of the Employee Retirement Income Security Act of 1974, as amended, which we call ERISA , or the Internal Revenue Code of 1986, as amended, and that is considering purchasing the notes with the assets of a plan, should consult with its counsel regarding whether the purchase or holding of the notes could become a prohibited transaction under ERISA, the Internal Revenue Code or any substantially similar prohibition. These prohibitions are discussed in further detail under Employee Retirement Income Security Act on page S-20.

Table of Contents

SPECIFIC TERMS OF THE NOTES

Please note that in this section entitled Specific Terms of the Notes , references to holders mean those who own notes registered in their own names, on the books that we or the trustee maintain for this purpose, and not indirect holders who own beneficial interests in notes registered in street name or in notes issued in book-entry form through The Depository Trust Company. Please review the special considerations that apply to indirect holders in the accompanying prospectus, under Legal Ownership .

The notes are part of a series of debt securities, entitled Medium-Term Notes, Series G , that we may issue under the indenture from time to time as described in the accompanying prospectus. The notes are also Indexed Notes and Senior Notes , each as described in the accompanying prospectus.

This prospectus supplement summarizes specific financial and other terms that apply to the notes. Terms that apply generally to all Medium-Term Notes, Series G, are described in Description of the Notes We May Offer in the accompanying prospectus. The terms described here supplement those described in the accompanying prospectus and, if the terms described there are inconsistent with those described here, the terms described here are controlling.

We describe the terms of the notes in more detail below.

No Interest

While at maturity a beneficial owner of a note will receive a cash payment equal to the maturity payment amount, there will be no other payment of interest, periodic or otherwise.

Denominations

Wachovia will issue the notes in principal amount of $10 per note and integral multiples thereof.

Offering Price

Each note will be offered at an initial public offering price equal to $10.

Maturity Payment Amount

At maturity, for each note you own, you will receive a cash payment equal to the sum of the principal amount of the note and the Index performance amount, subject to the minimum payment at maturity of $9.00 per note. The Index performance amount will equal the product of the principal amount of the note, the percentage change in the level of the Index and the Index participation factor. *If the final Index level is less than the initial Index level, the Index performance amount will be negative and the amount you receive at maturity will be less than the principal amount of the notes in proportion to the decline in the Index from the initial Index level to the final Index level, subject to the minimum payment at maturity.*

Determination of the Index performance amount

The Index performance amount per note will be determined by the calculation agent as follows:

$$\$10 \times \left(\frac{\text{final Index level} \quad \text{initial Index level}}{\text{initial Index level}} \right) \times \text{Index participation factor}$$

The initial Index level is 17,059.66, the closing level of the Index on March 31, 2006.

The final Index level will be determined by the calculation agent and will equal the closing level of the Index on the valuation date.

S-11

Table of Contents

The Index participation factor will be 125% if the final Index level is greater than the initial Index level, and 100% if the final Index level is less than or equal to the initial Index level.

The valuation date means the fifth trading day prior to the maturity date. However, if that day occurs on a day that is a disrupted day, then the valuation date will be postponed until the next succeeding trading day that is not a disrupted day; provided that in no event will the valuation date be postponed by more than five trading days. If the valuation date is postponed to the last possible day but that day is a disrupted day or is not a trading day, that date will nevertheless be the valuation date. *If the valuation date is postponed, then the maturity date of the notes will be postponed by an equal number of trading days.*

The closing level on any trading day will equal the official closing level (second session) of the Index or any successor index (as defined under Discontinuation of the Index; Adjustments to the Index below) published by the Index Sponsor at the regular weekday close of trading on that trading day. In certain circumstances, the closing level will be based on the alternate calculation of the Index described under Discontinuation of the Index; Adjustments to the Index below.

A trading day means any day on which each exchange and related exchange is scheduled to be open for its respective regular trading sessions.

A disrupted day means any trading day on which a relevant exchange or related exchange fails to open for trading during its regular trading session or on which a market disruption event has occurred with respect to the Index.

If any payment is due on the notes on a day which is not a day on which commercial banks settle payments in The City of New York, then that payment may be made on the next succeeding day that is a day on which commercial banks settle payments in The City of New York, in the same amount and with the same effect as if paid on the original due date.

WBNA, our subsidiary, will serve as the calculation agent. All determinations made by the calculation agent shall be at the sole discretion of the calculation agent and, absent a determination of a manifest error, shall be conclusive for all purposes and binding on Wachovia and the holders and beneficial owners of the notes. Wachovia may at any time change the calculation agent without notice to holders of notes.

Discontinuation of the Index; Adjustments to the Index

If the Index Sponsor discontinues publication of the Index and the Index Sponsor or another entity publishes a successor or substitute index that the calculation agent determines, in its sole discretion, to be comparable to the Index (a successor index), then, upon the calculation agent s notification of any determination to the trustee and Wachovia, the calculation agent will substitute the successor index as calculated by the Index Sponsor or any other entity for the Index and calculate the maturity payment amount as described above under Maturity Payment Amount . Upon any selection by the calculation agent of a successor index, Wachovia shall cause notice to be given to holders of the notes.

In the event that the Index Sponsor discontinues publication of the Index and:

- the calculation agent does not select a successor index, or

- the successor index is no longer published on any of the relevant trading days,

the calculation agent will compute a substitute level for the Index in accordance with the procedures last used to calculate the level of the Index before any discontinuation but using only those securities that comprised the Index prior to the discontinuation. If a successor index is selected or the calculation agent calculates a level as a substitute for the Index as described below, the successor index or level will be used as a substitute for the Index for all purposes going forward, including for purposes of determining whether a market disruption event exists, even if the Index Sponsor elects to begin republishing the Index, unless the calculation agent in its sole discretion decides to use the republished Index.

If the Index Sponsor discontinues publication of the Index and the calculation agent determines that no successor index is available at that time, then on each trading day until the earlier to occur of:

Table of Contents

- the determination of the maturity payment amount, or

- a determination by the calculation agent that a successor index is available,

the calculation agent will determine the level that would be used in computing the maturity payment amount as described in the preceding paragraph as if that day were a trading day. The calculation agent will cause notice of each level to be published not less often than once each month in *The Wall Street Journal* or another newspaper of general circulation, and arrange for information with respect to these levels to be made available by telephone.

Notwithstanding these alternative arrangements, discontinuation of the publication of the Index would be expected to adversely affect the market value of, liquidity of and trading in the notes.

If at any time the method of calculating the level of the Index or the level of any successor index changes in any material respect, or if the Index or successor index is in any other way modified so that the Index or successor index does not, in the opinion of the calculation agent, fairly represent the level of the Index had those changes or modifications not been made, then, from and after that time, the calculation agent shall, at the close of business in The City of New York, New York, on each date that the closing level of the Index is to be calculated, make any adjustments as, in the good faith judgment of the calculation agent, may be necessary in order to arrive at a calculation of a level of a stock index comparable to the Index or the successor index, as the case may be, as if those changes or modifications had not been made, and calculate the closing level with reference to the Index or the successor index, as so adjusted. Accordingly, if the method of calculating the Index or a successor index is modified and has a diluting or concentrative effect on the level of the Index or successor index, e.g., due to a split, then the calculation agent shall adjust the Index or successor index in order to arrive at a level of the Index or successor index as if it had not been modified, e.g., as if a split had not occurred.

Neither the calculation agent nor Wachovia will have any responsibility for good faith errors or omissions in calculating or disseminating information regarding any Index or any successor index or as to modifications, adjustments or calculations by the Index Sponsor or any successor index sponsor in order to arrive at the level of the Index or any successor index.

Market Disruption Event

A market disruption event with respect to the Index, as determined by the calculation agent in its sole discretion, means a relevant exchange or any related exchange fails to open for trading during its regular trading session or the occurrence or existence of any of the following events:

- a trading disruption, if the calculation agent determines it is material, at any time during the one-hour period that ends at the close of trading for a relevant exchange or related exchange; or

- an exchange disruption, if the calculation agent determines it is material, at any time during the one-hour period that ends at the close of trading for a relevant exchange or related exchange; or

- an early closure.

The following events will not be market disruption events:

- a limitation on the hours or number of days of trading, but only if the limitation results from an announced change in the regular business hours of the relevant market; or

- a decision to permanently discontinue trading in the option or futures contracts relating to the Index or any of the component stocks included in the Index.

For the purposes of determining whether a market disruption event with respect to the Index exists at any time, if a market disruption event occurs in respect of a security included in the Index at any time, then the relevant percentage contribution of that security to the level of the Index shall be based on a comparison of (i) the portion of the level of the

Table of Contents

Index attributable to that security and (ii) the overall level of the Index, in each case immediately before the occurrence of the market disruption event.

A trading disruption means any suspension of or limitation imposed on trading by the relevant exchange or related exchange or otherwise, whether by reason of movements in price exceeding limits permitted by the relevant exchange or related exchange or otherwise, (i) relating to securities that comprise 20 percent or more of the level of the Index or (ii) in options contracts or futures contracts relating to the Index on any relevant related exchange.

An exchange disruption means any event (other than a scheduled early closure) that disrupts or impairs (as determined by the calculation agent in its sole discretion) the ability of market participants in general to (i) effect transactions in or obtain market values on any relevant exchange or related exchange in securities that comprise 20 percent or more of the level of the Index or (ii) effect transactions in options contracts or futures contracts relating to the Index on any relevant related exchange.

An early closure means the closure on any exchange business day of any relevant exchange relating to securities that comprise 20 percent or more of the level of the Index or any related exchange prior to its normally scheduled closing time unless the earlier closing time is announced by that exchange or related exchange at least one-hour prior to the earlier of (i) the actual closing time for the regular trading session on the exchange or related exchange on that exchange business day and (ii) the submission deadline for orders to be entered into the relevant exchange system for execution at the close of trading on that exchange business day.

An exchange means the primary organized exchange or quotation system for trading any securities included in the Index and any successor to any exchange or quotation system or any substitute exchange or quotation system to which trading in any securities underlying the Index has temporarily relocated (provided that the calculation agent has determined that there is comparable liquidity relative to the securities underlying the Index on the substitute exchange or quotation system as on the original exchange).

An exchange business day means any trading day on which each exchange and related exchange is open for business during its regular trading session, notwithstanding any exchange or related exchange closing prior to its scheduled weekday closing time, without regard to after hours or other trading outside its regular trading session hours.

A related exchange means each exchange or quotation system on which futures or options contracts relating to the Index are traded, any successor to the exchange or quotation system or any substitute exchange or quotation system to which trading in the futures or options contracts relating to the Index has temporarily relocated (provided that the calculation agent has determined that there is comparable liquidity relative to the futures or options contracts relating to the Index on the temporary substitute exchange or quotation system as on the original related exchange).

Events of Default and Acceleration

In case an event of default with respect to any notes has occurred and is continuing, the amount payable to a beneficial owner of a note upon any acceleration permitted by the notes, with respect to the principal amount of each note will be equal to the maturity payment amount, calculated as though the date of early repayment were the maturity date of the notes. If one or more annual valuation periods have already occurred, the related annual percentage changes shall be considered in determining the maturity payment amount. If a bankruptcy proceeding is commenced in respect of Wachovia, the claim of the beneficial owner of a note may be limited, under Section 502(b)(2) of Title 11 of the United States Code, to the principal amount of the note plus an additional amount of contingent interest calculated as though the date of the commencement of the proceeding were the maturity date of the notes.

In case of default in payment of the notes, whether at their maturity or upon acceleration, the notes will not bear a default interest rate.

Table of Contents

THE NIKKEI 225® INDEX

The Nikkei 225® Index

We have obtained all information regarding the Index contained in this prospectus supplement, including its makeup, method of calculation and changes in its components, from publicly available information. That information reflects the policies of, and is subject to change by, the Index Sponsor. The Index Sponsor has no obligation to continue to publish, and may discontinue publication of the Index at any time. We make no representation or warranty as to the accuracy or completeness of such information.

The Nikkei 225® Index measures the composite price performance of selected Japanese stocks and is calculated, published and disseminated by NKS. The Nikkei 225® Index is currently based on 225 underlying stocks trading on the Tokyo Stock Exchange, and represents a broad cross-section of Japanese industry. All 225 of the underlying stock are listed on the First Section of the TSE, which are the most actively traded stocks on the TSE.

Computation of the Nikkei 225® Index

The Nikkei 225® Index is a modified, price-weighted index. Each stock s weight in the Nikkei 225® Index is based on its price per share rather than the total market capitalization of the issuer. NKS calculates the Nikkei 225® Index by multiplying the per share price of each stock underlying the Nikkei 225® Index by the corresponding weighting factor for that stock, calculating the sum of all these products and then dividing that sum by a divisor. The divisor, which in 1950 was retroactively set to the May 17, 1949 level of 225, was 24.140 as of October 4, 2005 and is subject to periodic adjustments, as described below. The weighting factor for each underlying stock is computed by dividing 50 Japanese yen by the par value of that stock, so that the share price of underlying stock when multiplied by its weighting factor corresponds to a share price based on a uniform par value of 50 Japanese yen. Each weighting factor represents the number of shares of the related stock underlying the Nikkei 225® Index that are included in one trading unit of the Nikkei 225® Index. The stock prices used in the calculation of the Nikkei 225® Index are those reported by a primary market for the stock underlying the Nikkei 225® Index, which is currently the TSE. The level of the Nikkei 225® Index is calculated once per minute during TSE trading hours.

In order to maintain continuity in the level of the Nikkei 225® Index in the event of certain changes affecting the stocks underlying the Nikkei 225® Index, such as the addition or deletion of stocks, substitution of stocks, stock dividends, stock splits or distributions of assets to stockholders, the divisor used in calculating the Nikkei 225® Index is adjusted in a manner designed to prevent any change or discontinuity in the level of the Nikkei 225® Index. The divisor remains at the new value until a further adjustment is necessary as a result of another change. As a result of each change affecting any stock underlying the Nikkei 225® Index, the divisor is adjusted in such a way that the sum of all share prices immediately after the change multiplied by the applicable weighting factor and divided by the new divisor will equal the level of the Nikkei 225® Index immediately prior to the change.

Modifications to the Stocks Underlying the Nikkei 225® Index

As previously mentioned, all 225 of the underlying stocks that comprise the Nikkei 225® Index are listed on the First Section of the TSE. Domestic stocks admitted to the TSE are assigned either to the First Section, Second Section or Mothers Section. Stocks listed in the First Section are among the most actively traded stocks on the TSE. At the end of each business year, the TSE examines each First Section stock to determine whether it continues to meet the criteria for inclusion in the First Section and each Second Section stock to determine whether it may qualify for inclusion in the First Section.

Stocks underlying the Nikkei 225® Index may be deleted or added by NKS. However, to maintain continuity in the Nikkei 225® Index, the policy of NKS is generally not to alter the composition of the stocks underlying the Nikkei 225® Index except when a stock underlying the Nikkei 225® Index is deleted in accordance with the following criteria:

Any stock underlying the Nikkei 225® Index becoming ineligible for listing in the First Section of the TSE due to any of the following reasons will be deleted from the stocks underlying the Nikkei 225® Index: bankruptcy of the issuer; merger of the issuer into, or acquisition of the issuer by, another company; delisting of the stock because of excess debt of the issuer or because of any other reason; transfer of an underlying stock to the Seiri Post (the Liquidation Post);

Table of Contents

transfer of the underlying stock to the Second Section of the TSE; and, in some cases, transfer of an underlying stock to the Kanri Post (the Post for stocks under supervision and, therefore, candidates for deletion). In addition, those underlying stocks with relatively low liquidity based on trading volume and price fluctuation over the past five years may be deleted by NKS. Upon deletion of a stock underlying the Nikkei 225® Index, NKS will select, in accordance with certain criteria established by it, a replacement for the deleted stock. Until such replacement, the Nikkei 225® Index will be calculated with the stocks underlying the Nikkei 225® Index less the deleted stock.

A list of the issuers of the stocks underlying the Nikkei 225® Index is available from the NKS Economic Electronic Databank System and from NKS directly. NKS may delete, add or substitute any stock underlying the Nikkei 225® Index.

The Tokyo Stock Exchange

The TSE is one of the world s largest securities exchanges in terms of market capitalization. Trading hours for TSE-listed stocks are currently from 9:00 a.m. to 11:00 a.m. and from 12:30 p.m. to 3:00 p.m. (the second session), Tokyo time, Monday through Friday.

Due to time zone differences, on any normal trading day the TSE will close before the opening of business in New York City on the same calendar day. Therefore, the closing level of the Index on any particular business day will generally be available in the United States by the opening of business on that business day.

The TSE has adopted certain measures, including daily price floors and ceilings on individual stocks, intended to prevent any extreme short-term price fluctuations resulting from order imbalances. In general, any stock listed on the TSE cannot be traded at a price lower than the applicable price floor or higher than the applicable price ceiling. These price floors and ceilings are expressed in absolute Japanese yen, rather than percentage limits based on the closing price of the stock on the previous trading day. In addition, when there is a major order imbalance in a listed stock, the TSE posts a special bid quote or a special offer quote for that stock at a specified higher or lower price level than the stock s last sale price in order to solicit counter-orders and balance supply and demand for the stock. Prospective investors should also be aware that the TSE may suspend the trading of individual stocks in certain limited and extraordinary circumstances, including, for example, unusual trading activity in that stock. As a result, changes in the Index may be limited by price limitations, special quotes or by suspension of trading in stocks underlying the Index, and these limitations may, in turn, adversely affect the value of the notes.

Historical Closing Levels of the Index

Since its inception, the level of the Index has experienced significant fluctuations. Any historical upward or downward trend in the closing level of the Index during any period shown below is not an indication that the closing level of the Index is more or less likely to increase or decrease at any time during the term of the notes. The historical Index levels do not give an indication of future levels of the Index. We cannot make any assurance that the future levels of the Index or the trading prices of the component stocks will result in holders of the notes receiving an amount greater than the principal amount of their notes on the maturity date. We do not make any representation to you as to the performance of the Index.

We obtained the closing levels of the Index listed below from Bloomberg Financial Markets, without independent verification. The actual level of the Index at or near maturity of the notes may bear little relation to the historical levels shown below.

The following table sets forth the published high and low closing levels of the Index, as well as the closing level of the Index at the end of the given period for each quarter from January 1, 2002 through December 31, 2005 and for the period from January 1, 2006 through March 31, 2006. On March 31, 2006, the closing level of the Index was 17,059.66 Past movements of the Index are not indicative of future Index levels.

Table of Contents

Quarterly High, Low and Closing Level of the Index

Quarter Start Date	Quarter End Date	High Closing Level of the Index	Low Closing Level of the Index	Quarter End Closing Level of the Index
01/01/02	03/31/02	11,919.30	9,420.85	11,024.94
04/01/02	06/30/02	11,979.85	10,074.56	10,621.84
07/01/02	09/30/02	10,960.25	9,075.09	9,383.29
10/01/02	12/31/02	9,215.56	8,303.39	8,578.95
01/01/03	03/31/03	8,790.92	7,862.43	7,972.71
04/01/03	06/30/03	9,137.14	7,607.88	9,083.11
07/01/03	09/30/03	11,033.32	9,265.56	10,219.05
10/01/03	12/31/03	11,161.71	9,614.60	10,676.64
01/01/04	03/31/04	11,770.65	10,365.40	11,715.39
04/01/04	06/30/04	12,163.89	10,505.05	11,858.87
07/01/04	09/30/04	11,896.01	10,687.81	10,823.57
10/01/04	12/31/04	11,488.76	10,659.15	11,488.76
01/01/05	03/31/05	11,966.69	11,238.37	11,668.95
04/01/05	06/30/05	11,874.75	10,825.39	11,584.01
07/01/05	09/30/05	13,617.24	11,565.99	13,574.30
10/01/05	12/31/05	16,344.20	13,106.18	16,111.43
01/01/06	03/30/06	17,059.66	15,341.18	17,059.66

License Agreement

We have entered into a non-exclusive license agreement with NKS, which allows us and our affiliates, in exchange for a fee, to use the Index in connection with the issuance of certain securities, including the notes. We are not affiliated with NKS; the only relationship between NKS and us is the licensing of the use of the Index and trademarks relating to the Index.

NKS is under no obligation to continue the calculation and dissemination of the Nikkei 225® Index. The notes are not sponsored, endorsed, sold or promoted by NKS. No inference should be drawn from the information contained in this prospectus supplement that NKS makes any representation or warranty, implied or express, to us, any holder of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes in particular or the ability of the Index to track general stock market performance.

NKS determines, composes and calculates the Nikkei 225® Index without regard to the notes. NKS has no obligation to take into account your interest, or that of anyone else having an interest, in the notes in determining, composing or calculating the Nikkei 225® Index. NKS is not responsible for, and has not participated in the determination of, the terms, prices or amount of the notes and will not be responsible for, or participate in, any determination or calculation regarding the principal amount of the notes payable at maturity. NKS has no obligation or liability in connection with the administration, marketing or trading of the notes.

NKS disclaims all responsibility for any errors or omissions in the calculation and dissemination of the Nikkei 225® Index or the manner in which the Nikkei 225® Index is applied in determining the initial Index level or the final Index level or any amount payable upon maturity of the notes.

NKS DOES NOT GUARANTEE THE ACCURACY OR THE COMPLETENESS OF THE NIKKEI 225® INDEX OR ANY DATA INCLUDED IN THE NIKKEI 225® INDEX. NKS ASSUMES NO LIABILITY FOR ANY ERRORS OR OMISSIONS.

Table of Contents

HYPOTHETICAL RETURNS

The following table illustrates, for the initial Index level, a range of hypothetical final Index levels and a Index participation factor of 125%:

- the hypothetical percentage change from the hypothetical initial Index level to the hypothetical final Index level;
- the hypothetical pre-tax annualized rate of total return of an investment in the stocks included in the Index;
- the hypothetical maturity payment amount per note;
- the hypothetical total rate of return to beneficial owners of the notes; and
- the hypothetical pre-tax annualized rate of return to beneficial owners of the notes as more fully described below.

The figures below are for purposes of illustration only. The actual maturity payment amount and the resulting total and pre-tax annualized rate of return will depend on the actual final Index level determined by the calculation agent as described in this prospectus supplement.

Hypothetical final Index level	Percentage change from the hypothetical initial Index level to the hypothetical final Index level	Hypothetical pre-tax annualized rate of total return of stocks included in the Index (1)(2)	Hypothetical maturity payment amount per note	Hypothetical total rate of return on the notes	Hypothetical pre-tax annualized rate of return on the notes (1)
12,794.75	-25.00%	-4.80%	9.00	-10.00%	-2.09%
13,221.24	-22.50%	-4.17%	9.00	-10.00%	-2.09%
13,647.73	-20.00%	-3.56%	9.00	-10.00%	-2.09%
14,074.22	-17.50%	-2.97%	9.00	-10.00%	-2.09%
14,500.71	-15.00%	-2.39%	9.00	-10.00%	-2.09%
14,927.20	-12.50%	-1.82%	9.00	-10.00%	-2.09%
15,353.69	-10.00%	-1.26%	9.00	-10.00%	-2.09%
15,780.19	-7.50%	-0.72%	9.25	-7.50%	-1.55%
16,206.68	-5.00%	-0.19%	9.50	-5.00%	-1.02%
16,633.17	-2.50%	0.33%	9.75	-2.50%	-0.51%
17,059.66(3)	0.00%	0.84%	10.00	0.00%	0.00%
17,486.15	2.50%	1.34%	10.31	3.13%	0.62%
17,912.64	5.00%	1.84%	10.63	6.25%	1.22%
18,339.13	7.50%	2.32%	10.94	9.38%	1.81%
18,765.63	10.00%	2.79%	11.25	12.50%	2.39%
19,192.12	12.50%	3.25%	11.56	15.63%	2.95%
19,618.61	15.00%	3.71%	11.88	18.75%	3.50%
20,045.10	17.50%	4.16%	12.19	21.88%	4.04%
20,471.59	20.00%	4.60%	12.50	25.00%	4.57%
20,898.08	22.50%	5.03%	12.81	28.13%	5.09%
21,324.58	25.00%	5.46%	13.13	31.25%	5.60%

(1) The annualized rates of return specified in the preceding table are calculated based on (a) annual compounding and (b) an actual/365 day count.

(2) This rate of return is solely based on the following assumptions:

(a) a quarterly dividend paid based on the stocks included in the index based on a constant yield of 0.84% per year;

Table of Contents

(b) no transaction fees or expenses; and

(c) a 4-year, 11-month and 24-day investment term.

(3) This is also the initial Index level.

SUPPLEMENTAL TAX CONSIDERATIONS

The following is a general description of certain United States federal income tax considerations relating to the notes. The following does not purport to be a complete analysis of all tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United States of acquiring, holding and disposing of the notes and receiving payments of interest, principal and/or other amounts under the notes. This summary is based on the law as in effect on the date of this prospectus supplement and is subject to any change in law that may take effect after such date. This summary does not address all aspects of United States federal income taxation of the notes that may be relevant to you in light of your particular circumstances, nor does it address all of your tax consequences if you are a holder of notes who is subject to special treatment under the United States federal income tax laws.

Supplemental U.S. Tax Considerations

The discussion below supplements the discussion under United States Taxation in the accompanying prospectus and is subject to the limitations and exceptions set forth therein. Except as otherwise noted under United States Alien Holders below, this discussion is only applicable to you if you are a United States holder (as defined in the accompanying prospectus).

In the opinion of Sullivan & Cromwell LLP, the notes will be treated as debt instruments subject to special rules governing contingent payment obligations for United States federal income tax purposes. Under those rules, the amount of interest you are required to take into account for each accrual period will be determined by constructing a projected payment schedule for the notes, and applying the rules similar to those for accruing original issue discount on a hypothetical noncontingent debt instrument with that projected payment schedule. This method is applied by first determining the yield at which we would issue a noncontingent fixed rate debt instrument with terms and conditions similar to the notes (the comparable yield) and then determining a payment schedule as of the issue date that would produce the comparable yield. These rules will generally have the effect of requiring you to include amounts in income in respect of the notes prior to your receipt of cash attributable to that income.

You may obtain the comparable yield and projected payment schedule from us by contacting the Investment Solutions Group at 1-888-215-4145 or 1-212-214-6282.

You are required to use the comparable yield and projected payment schedule that may be obtained from us at the above telephone number in determining your interest accruals in respect of the notes, unless you timely disclose and justify on your federal income tax return the use of a different comparable yield and projected payment schedule.

The comparable yield and projected payment schedule are not provided to you for any purpose other than the determination of your interest accruals in respect of the notes, and we make no representations regarding the amount of contingent payments with respect to the notes.

The amount of interest that you will be required to include in income in each accrual period for the notes will equal the product of the adjusted issue price for the notes at the beginning of the accrual period and the comparable yield for the notes. The adjusted issue price of the notes will equal the original offering price for the notes plus any interest that has accrued on the notes (under the rules governing contingent payment obligations).

If you purchase the notes for an amount that differs from the notes adjusted issue price at the time of the purchase, you must determine the extent to which the difference between the price you paid for your notes and their adjusted issue price is attributable to a change in expectations as to the projected payment schedule, a change in interest rates, or both, and allocate the difference accordingly. If, as expected, the notes are listed on the American Stock Exchange, you may

S-19

(but are not required to) allocate the difference pro rata to interest accruals over the remaining term of the notes to the extent that the yield on the notes, determined after taking into account amounts allocated to interest, is not less than the applicable U.S. federal rate for the notes. The applicable U.S. federal rate will be the U.S. federal short-term rate, if your note is expected to mature within three years of the date you purchase your note, or the U.S. federal mid-term rate, if your note is expected to mature more than three years from the date you purchase your note. These rates are published monthly by the U.S. Secretary of the Treasury and are intended to approximate the average yield on short-term and mid-term U.S. government obligations, respectively.

If you purchase the notes for an amount that is less than the adjusted issue price of the notes, you must (a) make positive adjustments increasing the amount of interest that you would otherwise accrue and include in income each year to the extent of amounts allocated to a change in interest rates under the preceding paragraph and (b) make positive adjustments increasing the amount of ordinary income (or decreasing the amount of loss) that you would otherwise recognize on the maturity of the notes to the extent of amounts allocated to a change in expectations as to the projected payment schedule under the preceding paragraph. If you purchase the notes for an amount that is greater than the adjusted issue price of the notes, you must (a) make negative adjustments decreasing the amount of interest that you would otherwise accrue and include in income each year to the extent of amounts allocated to a change in interest rates under the preceding paragraph and (b) make negative adjustments decreasing the amount of ordinary income (or increasing the amount of loss) that you would otherwise recognize on the maturity of the notes to the extent of amounts allocated to a change in expectations as to the projected payment schedule under the preceding paragraph. Adjustments allocated to the interest amount are not made until the date the daily portion of interest accrues.

Because any Form 1099 OID that you receive will not reflect the effects of positive or negative adjustments resulting from your purchase of the notes at a price other than the adjusted issue price determined for tax purposes, you are urged to consult with your tax advisor as to whether and how adjustments should be made to the amounts reported on any Form 1099-OID.

You will recognize gain or loss on the sale or maturity of the notes in an amount equal to the difference, if any, between the amount of cash you receive at that time and your adjusted basis in the notes. In general, your adjusted basis in the notes will equal the amount you paid for the notes, increased by the amount of interest you previously accrued with respect to the notes (in accordance with the comparable yield for the notes) and increased or decreased by the amount of any positive or negative adjustment that you are required to make with respect to your notes under the rules set forth above.

Any gain you may recognize on the sale or maturity of the notes will be ordinary interest income. Any loss you may recognize upon the sale of the notes will be ordinary loss to the extent of interest you included as income in the current or previous taxable years in respect of the notes, and thereafter, capital loss. If you hold your notes until maturity and the maturity payment is less than the projected payment at maturity, the difference will first reduce interest that would otherwise accrue in respect of the notes in such taxable year, and any remainder will be ordinary loss to the extent you previously accrued interest income in respect of the notes and thereafter will be capital loss. The deductibility of capital losses is limited.

United States Alien Holders. If you are a United States alien holder, you generally will not be subject to United States withholding tax or to generally applicable information reporting and backup withholding requirements with respect to payments on your notes as long as you comply with certain certification and identification requirements as to your foreign status. Please see the discussion under United States Taxation United States Alien Holders in the accompanying prospectus.

EMPLOYEE RETIREMENT INCOME SECURITY ACT

A fiduciary of a pension, profit-sharing or other employee benefit plan (a plan) subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), should consider the fiduciary standards of ERISA in the context of the plan s particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code (the Code).

Table of Contents

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Internal Revenue Code (also plans), from engaging in certain transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code (parties in interest) with respect to the plan or account. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) (non-ERISA arrangements) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws (similar laws).

The acquisition of the notes by a plan with respect to which Wachovia, Wachovia Capital Markets, LLC or certain of our affiliates is or becomes a party in interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those notes are acquired pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or PTCEs , that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the notes. These exemptions are:

PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;

PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;

PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;

PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and

PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

The notes may not be purchased or held by (1) any plan, (2) any entity whose underlying assets include plan assets by reason of any plan s investment in the entity (a plan asset entity) or (3) any person investing in plan assets of any plan, unless in each case the purchaser or holder is eligible for the exemptive relief available under one or more of the PTCEs listed above or another applicable similar exemption. Any purchaser or holder of the notes or any interest in the notes will be deemed to have represented by its purchase and holding of the notes that it either (1) is not a plan or a plan asset entity and is not purchasing those notes on behalf of or with plan assets of any plan or plan asset entity or (2) with respect to the purchase or holding, is eligible for the exemptive relief available under any of the PTCEs listed above or another applicable exemption. In addition, any purchaser or holder of the notes or any interest in the notes which is a non-ERISA arrangement will be deemed to have represented by its purchase and holding of the notes that its purchase and holding will not violate the provisions of any similar law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing the notes on behalf of or with plan assets of any plan, plan asset entity or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

If you are an insurance company or the fiduciary of a pension plan or an employee benefit plan, and propose to invest in the notes, you should consult your legal counsel.

USE OF PROCEEDS AND HEDGING

The net proceeds from the sale of the notes will be used as described under Use of Proceeds in the accompanying prospectus and to hedge market risks of Wachovia associated with its obligation to pay the maturity payment amount of the notes.

S-21

Table of Contents

The hedging activity discussed above may adversely affect the market value of the notes from time to time and the maturity payment amount you will receive on the notes at maturity. See Risk Factors Purchases and sales by us or our affiliates may affect the return on the notes and Risk Factors Potential conflicts of interest could arise for a discussion of these adverse effects.

SUPPLEMENTAL PLAN OF DISTRIBUTION

Wachovia Capital Markets, LLC has agreed, subject to the terms and conditions of the distribution agreement and a terms agreement, to purchase from Wachovia as principal $5,408,450 aggregate principal amount of notes and will receive an underwriting discount and commission of 3.00%. Wachovia Capital Markets, LLC has engaged the services of each of Wachovia Securities, LLC, as broker, to resell $5,408,450 aggregate principal amount of the notes purchased by Wachovia Capital Markets, LLC and has agreed to reallow Wachovia Securities, LLC 2.75% of the principal amount of each note sold through Wachovia Securities, LLC or Wachovia Securities Financial Network, LLC, respectively, as broker.

The distribution agreement provides that the obligations of Wachovia Capital Markets, LLC are subject to certain conditions and that Wachovia Capital Markets, LLC is obligated to purchase the securities. Wachovia Capital Markets, LLC has advised Wachovia that it proposes initially to offer all or part of the securities directly to the public at the initial offering price set forth on the cover page of this prospectus supplement. In addition to the compensation paid at the time of the initial public offering of the securities, an additional administrative fee of 0.25% will be paid to Wachovia Securities, LLC in connection with the administration of orders for the securities. After the initial public offering, the initial public offering price may be changed and a concession to dealers may be offered. Wachovia Capital Markets, LLC is offering the securities subject to receipt and acceptance and subject to its right to reject any order in whole or in part.

In addition, additional agents under the distribution agreement, subject to the terms and conditions of the distribution agreement, may act as Wachovia s agents in the sale of $50,000 aggregate principal amount of the securities. The total commission payable on securities sold by the additional agents on an agency basis, pursuant to the distribution agreement, will be 2.75%. We refer to the additional agents, together with Wachovia Capital Markets, LLC, as the Agents .

Proceeds to be received by Wachovia in this offering will be net of the underwriting discount, commission and expenses payable by Wachovia.

The Agents, Wachovia Securities, LLC, Wachovia Securities Financial Network, LLC or any other broker-dealer affiliate of Wachovia may use this prospectus supplement and the accompanying prospectus for offers and sales related to market-making transactions in the notes. The Agents, Wachovia Securities, LLC, Wachovia Securities Financial Network, LLC or any other broker-dealer affiliate of Wachovia may act as principal or agent in these transactions, and the sales will be made at prices related to prevailing market prices at the time of sale.

Wachovia Capital Markets, LLC, Wachovia Securities, LLC and Wachovia Securities Financial Network, LLC are affiliates of Wachovia. Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. (the NASD) imposes certain requirements when an NASD member such as Wachovia Capital Markets, LLC, Wachovia Securities, LLC or Wachovia Securities Financial Network, LLC distributes an affiliated company s debt securities. Wachovia Capital Markets, LLC, Wachovia Securities, LLC and Wachovia Securities Financial Network, LLC have advised Wachovia that this offering will comply with the applicable requirements of Rule 2720. No NASD member participating in this offering will confirm initial sales to accounts over which they exercise discretionary authority without prior written approval of the customer.

We expect to deliver the notes against payment therefor in The City of New York, New York on or about the expected settlement date specified on the coverage page of this prospectus supplement, which will be the fifth business day following the date of this prospectus supplement and of the pricing of the notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the pricing date or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in five business days (T+5), to specify alternative settlement arrangements to prevent a failed settlement.

No action has been or will be taken by Wachovia, the Agents, Wachovia Securities, LLC, Wachovia Securities Financial Network, LLC or any other broker-dealer affiliate of Wachovia that would permit a public offering of the notes or possession or distribution of this prospectus supplement or the accompanying prospectus in any jurisdiction, other than the United States, where action for that purpose is required. No offers, sales or deliveries of the notes, or distribution of this prospectus supplement or the accompanying prospectus, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on Wachovia, the Agents, Wachovia Securities, LLC, Wachovia Securities Financial Network, LLC or any other broker-dealer affiliate of Wachovia. In respect of specific jurisdictions, please note the following:

The notes, and the offer to sell notes, do not constitute a public offering in Argentina. Consequently, no public offering approval has been requested or granted by the Comision National de Valores, nor has any listing authorization of the notes been requested on any stock market in Argentina.

The notes will not be offered or sold to any persons who are residents of the Bahamas within the meaning of the Exchange Control Regulations of 1956 issued by the Central Bank of the Bahamas.

The notes may not be offered or sold to the public in Brazil. Accordingly, the notes have not been submitted to the Comissao de Valores Mobiliaros for approval. Documents relating to this offering may not be supplied to the public as a public offering in Brazil or be used in connection with any offer for subscription or sale to the public in Brazil.

Neither the notes nor Wachovia Corporation are registered in the Securities Registry of the Superintendency of Securities and Insurance in Chile.

The notes have not been registered with the National Registry of Securities maintained by the Mexican National Banking and Securities Commission and may not be offered or sold publicly in Mexico. This prospectus supplement and the accompanying prospectus may not be publicly distributed in Mexico.

RECENT DEVELOPMENTS

On January 19, 2006, Wachovia announced its results of operations for the quarter ended December 31, 2005. Wachovia s earnings were $1.71 billion in the fourth quarter of 2005 compared with earnings of $1.45 billion in the fourth quarter of 2004. On a per share basis, earnings were $1.09 compared with $0.95 a year ago.

For the full year of 2005, earnings were $.6.64 billion, or $4.19 per share, compared with $5.21 billion, or $3.81 per share, for the full year of 2004.

These results included a discontinued operations gain of $214 million after-tax, or $0.14 per share, related to the fourth quarter 2005 sale of Wachovia s corporate and institutional trust businesses.

Tax-equivalent net interest income was $3.58 billion in the fourth quarter of 2005 compared with $3.36 billion in the fourth quarter of 2004. Fee and other income was $2.99 billion in the fourth quarter of 2005 compared with $2.80 billion in the fourth quarter of 2004.

Nonperforming assets were $720 million, or 0.28% of net loans and foreclosed properties, at December 31, 2005, compared with $1.10 billion, or 0.49%, at December 31, 2004. Annualized net charge-offs as a percentage of average net loans were 0.09% in the fourth quarter of 2005 compared with 0.23% in the fourth quarter of 2004. The provision for credit losses was $81 million in the fourth quarter of 2005 compared with $109 million a year ago.

Net loans at December 31, 2005 were $259.0 billion compared with $223.8 billion a year ago. Total deposits were $324.9 billion at December 31, 2005, compared with $295.1 billion a year ago. Stockholders equity was $47.6 billion at December 31, 2005, compared with $47.3 billion a year ago. At December 31, 2005, Wachovia had assets of $520.8 billion.

Table of Contents

$9,100,000,000

WACHOVIA CORPORATION

Senior Global Medium-Term Notes, Series G

and

Subordinated Global Medium-Term Notes, Series H

Terms of Sale

Wachovia Corporation may from time to time offer and sell notes with various terms, including the following:

stated maturity of 9 months or longer

fixed or floating interest rate, zero-coupon or issued with original issue discount; a floating interest rate may be based on:

commercial paper rate

prime rate

LIBOR

EURIBOR

treasury rate

CMT rate

amount of principal or interest may be determined by reference to an index or formula

book-entry form through The Depository Trust Company, Euroclear, Clearstream or any other clearing system or financial institution named in the applicable pricing supplement

redemption at the option of Wachovia or repayment at the option of the holder

interest on notes paid monthly, quarterly, semi-annually or annually

denominations of $1,000 and multiples of $1,000

denominated in U.S. dollars, a currency other than U.S dollars or in a composite currency

settlement in immediately available funds

CD rate

CPI rate

federal funds rate

ranked as senior or subordinated indebtedness of Wachovia

The final terms of each note will be included in a pricing supplement. Wachovia will receive between $9,090,000,000 and $8,372,000,000 of the proceeds from the sale of the notes, after paying the agents commissions of between $10,000,000 and $728,000,000, unless otherwise agreed with the agents.

Wachovia has filed an application to list notes issued under this prospectus on the Luxemburg Stock Exchange. The Luxembourg Stock Exchange has advised us that with respect to notes so listed, this prospectus is valid for one year from the date of this prospectus.

Investing in the notes involves risks. See Risk Factors beginning on page 5.

Neither the Securities and Exchange Commission, any state securities commission or the Commissioner of Insurance of the state of North Carolina has approved or disapproved of the securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

These securities will be our unsecured obligations and will not be savings accounts, deposits or other obligations of any bank or non-bank subsidiary of ours and are not insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund or any other governmental agency.

Wachovia may sell the notes directly or through one or more agents or dealers, including the agents listed below. The agents are not required to sell any particular amount of the notes.

Wachovia may use this prospectus in the initial sale of any notes. In addition, Wachovia Capital Markets, LLC, or any other affiliate of Wachovia may use this prospectus in a market-making or other transaction in any note after its initial sale. ***Unless Wachovia or its agent informs the purchaser otherwise in the confirmation of sale or pricing supplement, this prospectus is being used in a market-making transaction.***

Wachovia Securities

This prospectus is dated May 13, 2005

Table of Contents

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

General

This document is called a prospectus and is part of a registration statement that we filed with the SEC using a shelf registration or continuous offering process. Under this shelf registration, we may from time to time sell any combination of the securities described in this prospectus in one or more offerings up to a total aggregate initial offering price of $9,100,000,000 or the equivalent amount in one or more other currencies or composite currencies.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a pricing supplement containing specific information about the terms of the securities being offered. That pricing supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The pricing supplement may also add, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and any pricing supplement, you should rely on the information in that pricing supplement. You should read both this prospectus and any pricing supplement together with additional information described under the heading Where You Can Find More Information .

The registration statement containing this prospectus, including exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement can be read at the SEC web site or at the SEC offices mentioned under the heading Where You Can Find More Information .

When acquiring any securities discussed in this prospectus, you should rely only on the information provided in this prospectus and in any pricing supplement, including the information incorporated by reference. Neither we nor any underwriters or agents have authorized anyone to provide you with different information. We are not offering the securities in any state where the offer is prohibited. You should not assume that the information in this prospectus, any pricing supplement or any document incorporated by reference is truthful or complete at any date other than the date mentioned on the cover page of these documents.

We may sell securities to underwriters who will sell the securities to the public on terms fixed at the time of sale. In addition, the securities may be sold by us directly or through dealers or agents designated from time to time, which agents may be our affiliates. If we, directly or through agents, solicit offers to purchase the securities, we reserve the sole right to accept and, together with our agents, to reject, in whole or in part, any of those offers.

The pricing supplement will contain the names of the underwriters, brokers, dealers or agents, if any, together with the terms of offering, the compensation of those persons and the net proceeds to us. Any underwriters, brokers, dealers or agents participating in the offering may be deemed underwriters within the meaning of the Securities Act of 1933 (the Securities Act).

One or more of our subsidiaries, including Wachovia Capital Markets, LLC may buy and sell any of the securities after the securities are issued as part of their business as a broker-dealer. Those subsidiaries may use this prospectus and the related pricing supplement in those transactions. Any sale by a subsidiary will be made at the prevailing market price at the time of sale. Wachovia Capital Markets, LLC and Wachovia Securities, LLC another of our subsidiaries, each conduct business under the name Wachovia Securities . Any reference in this prospectus to Wachovia Securities means Wachovia Capital Markets, LLC, unless otherwise mentioned or unless the context requires otherwise.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to Wachovia , we , us , our or similar references mean Wachovia Corporation and its subsidiaries.

1

Table of Contents

Selling Restrictions Outside the United States

Offers and sales of the notes are subject to restrictions in the United Kingdom. The distribution of this prospectus and the offering of the notes in certain other jurisdictions may also be restricted by law. This prospectus does not constitute an offer of, or an invitation on Wachovia s behalf or on behalf of the agents or any of them to subscribe to or purchase, any of the notes. This prospectus may not be used for or in connection with an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Please refer to the section entitled Plan of Distribution .

As long as the notes are listed on the Luxembourg Stock Exchange, a supplemental prospectus will be prepared and filed with the Luxembourg Stock Exchange in the event of a material change in the financial condition of Wachovia that is not reflected in this prospectus, for the use in connection with any subsequent issue of debt securities to be listed on the Luxembourg Stock Exchange. As long as the notes are listed on the Luxembourg Stock Exchange, if the terms and conditions of the notes are modified or amended in a manner which would make this prospectus materially inaccurate or misleading, a new prospectus or supplemental prospectus will be prepared.

Wachovia accepts responsibility for the information contained in this prospectus. The Luxembourg Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss no matter how arising from or in reliance upon the whole or any part of the contents of this prospectus.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. In addition, our SEC filings are available to the public at the SEC s web site at http://www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

The SEC allows us to incorporate by reference into this prospectus the information in documents we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later. We incorporate by reference the documents listed below and any documents we file with the SEC in the future under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) until the offering of securities by means of this prospectus is completed:

Annual Report on Form 10-K for the year ended December 31, 2004;

Quarterly Report on Form 10-Q for the period ended March 31, 2005; and

Current Reports on Form 8-K dated January 5, 2005, January 14, 2005, January 19, 2005, April 15, 2005 and May 2, 2005.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Corporate Relations

Wachovia Corporation

One Wachovia Center

301 South College Street

Charlotte, North Carolina 28288-0206

(704) 374-6782

As long as the notes are listed on the Luxembourg Stock Exchange, you may also obtain documents incorporated by reference in this prospectus free of charge from the Luxembourg Listing Agent or the Luxembourg Paying Agent and Transfer Agent.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus and applicable pricing supplements contain or incorporate statements that are forward-looking statements . These statements can be identified by the use of forward-looking language such as will likely result , may , are expected to , is anticipated , estimate , projected , i to , or other similar words. Our actual results, performance or achievements could be significantly different from the results expressed in or implied by these forward-looking statements. These statements are subject to certain risks and uncertainties, including but not limited to certain risks described in the pricing supplement or the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks, uncertainties and other cautionary statements made in this prospectus and the pricing supplements. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. You should refer to our periodic and current reports filed with the SEC for specific risks which could cause actual results to be significantly different from those expressed or implied by these forward-looking statements.

WACHOVIA CORPORATION

Wachovia was incorporated under the laws of North Carolina in 1967. We are registered as a financial holding company and a bank holding company under the Bank Holding Company Act of 1956, as amended, and are supervised and regulated by the Board of Governors of the Federal Reserve System. Our banking and securities subsidiaries are supervised and regulated by various federal and state banking and securities regulatory authorities. On September 1, 2001, the former Wachovia Corporation merged with and into First Union Corporation, and First Union Corporation changed its name to Wachovia Corporation .

In addition to North Carolina, Wachovia s full-service banking subsidiaries operate in Alabama, Connecticut, Delaware, Florida, Georgia, Maryland, Mississippi, New Jersey, New York, Pennsylvania, South Carolina, Tennessee, Texas, Virginia and Washington, D.C. These full-service banking subsidiaries provide a wide range of commercial and retail banking and trust services. Wachovia also provides various other financial services, including mortgage banking, home equity lending, leasing, investment banking, insurance and securities brokerage services through other subsidiaries.

In 1985, the Supreme Court upheld regional interstate banking legislation. Since then, Wachovia has concentrated its efforts on building a large regional banking organization in what it perceives to be some of the better banking markets in the eastern United States. Since November 1985, Wachovia has completed over 100 banking-related acquisitions.

Wachovia continually evaluates its business operations and organizational structures to ensure they are aligned closely with its goal of maximizing performance in its core business lines, Capital Management, Wealth Management, the General Bank and Corporate and Investment Banking. When consistent with our overall business strategy, we may consider the disposition of certain of our assets, branches, subsidiaries or lines of business. We continue to routinely explore acquisition opportunities, particularly in areas that would complement our core business lines, and frequently conduct due diligence activities in connection with possible acquisitions. As a result, acquisition discussions and, in some cases, negotiations frequently take place, and future acquisitions involving cash, debt or equity securities can be expected.

Wachovia is a separate and distinct legal entity from its banking and other subsidiaries. Dividends received from our subsidiaries are our principal source of funds to pay dividends on our common and preferred stock and debt service on our debt. Various federal and state statutes and regulations limit the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval.

4

RISK FACTORS

Our Credit Ratings May Not Reflect All Risks of An Investment in the Notes

The credit ratings of our medium-term note program may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, your notes. In addition, real or anticipated changes in our credit ratings will generally effect any trading market for, or trading value of, your notes.

Risks Relating to Indexed Notes

We use the term indexed notes to mean notes whose value is linked to an underlying property or index. Indexed notes may present a high level of risk, and those who invest in indexed notes may lose their entire investment. In addition, the treatment of indexed notes for U.S. federal income tax purposes is often unclear due to the absence of any authority specifically addressing the issues presented by any particular indexed note. Thus, if you propose to invest in indexed notes, you should independently evaluate the federal income tax consequences of purchasing an indexed note that apply in your particular circumstances. You should also read United States Taxation for a discussion of U.S. tax matters.

Investors in Indexed Notes Could Lose Their Investment

The amount of principal and/or interest payable on an indexed note and the cash value or physical settlement value of a physically settled note will be determined by reference to the price, value or level of one or more securities, currencies, commodities or other properties, any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance, and/or one or more indices or baskets of any of these items. We refer to each of these as an index . The direction and magnitude of the change in the price, value or level of the relevant index will determine the amount of principal and/or interest payable on the indexed note, and the cash value or physical settlement value of a physically settled note. The terms of a particular indexed note may or may not include a guaranteed return of a percentage of the face amount at maturity or a minimum interest rate. Thus, if you purchase an indexed note, you may lose all or a portion of the principal or other amount you invest and may receive no interest on your investment.

The Issuer of a Security or Currency That Serves as an Index Could Take Actions That May Adversely Affect an Indexed Note

The issuer of a security that serves as an index or part of an index for an indexed note will have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. The issuer may take actions, such as a merger or sale of assets, without regard to the interests of the holder. Any of these actions could adversely affect the value of a note indexed to that security or to an index of which that security is a component.

If the index for an indexed note includes a non-U.S. dollar currency or other asset denominated in a non-U.S. dollar currency, the government that issues that currency will also have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. That government may take actions that could adversely affect the value of the note. See Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency below for more information about these kinds of government actions.

An Indexed Note May Be Linked to a Volatile Index, Which Could Hurt Your Investment

Some indices are highly volatile, which means that their value may change significantly, up or down, over a short period of time. The amount of principal or interest that can be expected to become payable on an indexed note may vary substantially from time to time. Because the amounts payable with respect to an indexed note are generally calculated based on the value or level of the relevant index on a specified date or over a limited period of time, volatility in the index increases the risk that the return on the indexed note may be adversely affected by a fluctuation in the level of the relevant index.

The volatility of an index may be affected by political or economic events, including governmental actions, or by the activities of participants in the relevant markets. Any of these events or activities could adversely affect the value of an indexed note.

An Index to Which a Note Is Linked Could Be Changed or Become Unavailable

Some indices compiled by us or our affiliates or third parties may consist of or refer to several or many different securities, commodities or currencies or other instruments or measures. The compiler of such an index typically reserves the right to alter the composition of the index and the manner in which the value or level of the index is calculated. An alteration may result in a decrease in the value of or return on an indexed note that is linked to the index. The indices for our indexed notes may include published indices of this kind or customized indices developed by us or our affiliates in connection with particular issues of indexed notes.

A published index may become unavailable, or a customized index may become impossible to calculate in the normal manner, due to events such as war, natural disasters, cessation of publication of the index or a suspension or disruption of trading in one or more securities, commodities or currencies or other instruments or measures on which the index is based. If an index becomes unavailable or impossible to calculate in the normal manner, the terms of a particular indexed note may allow us to delay determining the amount payable as principal or interest on an indexed note, or we may use an alternative method to determine the value of the unavailable index. Alternative methods of valuation are generally intended to produce a value similar to the value resulting from reference to the relevant index. However, it is unlikely that any alternative method of valuation we use will produce a value identical to the value that the actual index would produce. If we use an alternative method of valuation for a note linked to an index of this kind, the value of the note, or the rate of return on it, may be lower than it otherwise would be.

Some indexed notes are linked to indices that are not commonly used or that have been developed only recently. The lack of a trading history may make it difficult to anticipate the volatility or other risks associated with an indexed note of this kind. In addition, trading in these indices or their underlying stocks, commodities or currencies or other instruments or measures, or options or futures contracts on these stocks, commodities or currencies or other instruments or measures, may be limited, which could increase their volatility and decrease the value of the related indexed notes or the rates of return on them.

We May Engage in Hedging Activities that Could Adversely Affect an Indexed Note

In order to hedge an exposure on a particular indexed note, we may, directly or through our affiliates, enter into transactions involving the securities, commodities or currencies or other instruments or measures that underlie the index for the note, or involving derivative instruments, such as swaps, options or futures, on the index or any of its component items. By engaging in transactions of this kind, we could adversely affect the value of an indexed note. It is possible that we could achieve substantial returns from our hedging transactions while the value of the indexed note may decline.

Information About Indices May Not Be Indicative of Future Performance

If we issue an indexed note, we may include historical information about the relevant index in the relevant pricing supplement. Any information about indices that we may provide will be furnished as a matter of information only, and you should not regard the information as indicative of the range of, or trends in, fluctuations in the relevant index that may occur in the future.

We May Have Conflicts of Interest Regarding an Indexed Note

Wachovia Securities and our other affiliates may have conflicts of interest with respect to some indexed notes. Wachovia Securities and our other affiliates may engage in trading, including trading for hedging purposes, for their proprietary accounts or for other accounts under their management, in indexed notes and in the securities, commodities or currencies or other instruments or measures on which the index is based or in other derivative instruments related to the index or its component items. These trading activities could adversely affect the value of indexed notes. We and our affiliates may also issue or underwrite securities or derivative instruments that are linked to the same index as one or more indexed notes. By introducing competing products into the marketplace in this manner, we could adversely affect the value of an indexed note.

Wachovia Bank, National Association or another of our affiliates may serve as calculation agent for the indexed notes and may have considerable discretion in calculating the amounts payable in respect of the notes. To the extent that Wachovia Bank, National Association or another of our affiliates calculates or compiles a particular index, it may also have considerable discretion in performing the calculation or compilation of the index. Exercising discretion in this manner could adversely affect the value of an indexed note based on the index or the rate of return on the security.

Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency

If you intend to invest in a non-U.S. dollar note e.g., a note whose principal and/or interest is payable in a currency other than U.S. dollars or that may be settled by delivery of or reference to a non-U.S. dollar currency or property denominated in or otherwise linked to a non-U.S. dollar currency you should consult your own financial and legal advisors as to the currency risks entailed by your investment. Notes of this kind may not be an appropriate investment for investors who are unsophisticated with respect to non-U.S. dollar currency transactions.

An Investment in a Non-U.S. Dollar Note Involves Currency-Related Risks

An investment in a non-U.S. dollar note entails significant risks that are not associated with a similar investment in a note that is payable solely in U.S. dollars and where settlement value is not otherwise based on a non-U.S. dollar currency. These risks include the possibility of significant changes in rates of exchange between the U.S. dollar and the various non-U.S. dollar currencies or composite currencies and the possibility of the imposition or modification of foreign exchange controls or other conditions by either the United States or non-U.S. governments. These risks generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies in the global markets.

Changes in Currency Exchange Rates Can Be Volatile and Unpredictable

Rates of exchange between the U.S. dollar and many other currencies have been highly volatile, and this volatility may continue and perhaps spread to other currencies in the future. Fluctuations in currency exchange rates could adversely affect an investment in a note denominated in, or where value is otherwise linked to, a specified currency other than U.S. dollars. Depreciation of the specified currency against the U.S. dollar could result in a decrease in the U.S. dollar-equivalent value of payments on the note, including the principal payable at maturity. That in turn could cause the market value of the note to fall. Depreciation of the specified currency against the U.S. dollar could result in a loss to the investor on a U.S. dollar basis.

In courts outside of New York, investors may not be able to obtain judgment in a specified currency other than U.S. dollars. For example, a judgment for money in an action based on a non-U.S. dollar note in many other U.S. federal or state courts ordinarily would be enforced in the United States only in U.S. dollars.

Table of Contents

The date used to determine the rate of conversion of the currency in which any particular note is denominated into U.S. dollars will depend upon various factors, including which court renders the judgment.

Information About Exchange Rates May Not Be Indicative of Future Performance

If we issue a non-U.S. dollar note, we may include in the relevant pricing supplement a currency supplement that provides information about historical exchange rates for the relevant non-U.S. dollar currency or currencies. Any information about exchange rates that we may provide will be furnished as a matter of information only, and you should not regard the information as indicative of the range of, or trends in, fluctuations in currency exchange rates that may occur in the future. That rate will likely differ from the exchange rate used under the terms that apply to a particular note.

Table of Contents

USE OF PROCEEDS

Wachovia currently intends to use the net proceeds from the sale of any notes for general corporate purposes, which may include:

- reducing debt;
- investments at the holding company level;
- investing in, or extending credit to, our operating subsidiaries;
- acquisitions;
- stock repurchases; and
- other purposes as mentioned in any pricing supplement.

Pending such use, we may temporarily invest the net proceeds. The precise amounts and timing of the application of proceeds will depend upon our funding requirements and the availability of other funds. Except as mentioned in any pricing supplement, specific allocations of the proceeds to such purposes will not have been made at the date of that pricing supplement.

Based upon our historical and anticipated future growth and our financial needs, we may engage in additional financings of a character and amount that we determine as the need arises.

CONSOLIDATED EARNINGS RATIOS

The following table provides Wachovia s consolidated ratios of earnings to fixed charges and preferred stock dividends:

	Three Months Ended March 31,	Years Ended December 31,				
	2005	2004	2003	2002	2001	2000

Consolidated Ratios of Earnings to Fixed Charges and Preferred Stock Dividends						
Excluding interest on deposits	3.31x	3.83	3.63	2.91	1.61	1.13
Including interest on deposits	2.16x	2.37	2.30	1.79	1.27	1.06

For purposes of computing these ratios

earnings represent income from continuing operations before extraordinary items and cumulative effect of a change in accounting principles, plus income taxes and fixed charges (excluding capitalized interest);

fixed charges, excluding interest on deposits, represent interest (including capitalized interest), one-third of rents and all amortization of debt issuance costs; and

fixed charges, including interest on deposits, represent all interest (including capitalized interest), one-third of rents and all amortization of debt issuance costs.

One-third of rents is used because it is the proportion deemed representative of the interest factor.

Table of Contents

SELECTED CONSOLIDATED CONDENSED FINANCIAL DATA

The following is selected unaudited consolidated condensed financial information for Wachovia for the three months ended March 31, 2005, and the year ended December 31, 2004. The summary below should be read in conjunction with the consolidated financial statements of Wachovia, and the related notes thereto, and the other detailed information contained in Wachovia s 2005 First Quarter Report on Form 10-Q and in Wachovia s 2004 Annual Report on Form 10-K.

(In millions, except per share data)	Three Months Ended March 31, 2005	Year Ended December 31, 2004
CONSOLIDATED CONDENSED SUMMARIES OF INCOME		
Interest income	$ 5,453	17,288
Interest expense	2,040	5,327
Net interest income	3,413	11,961
Provision for credit losses	36	257
Net interest income after provision for credit losses	3,377	11,704
Securities losses	(2)	(10)
Fee and other income	2,997	10,789
Merger-related and restructuring expenses	61	444
Other noninterest expense	3,811	14,222
Minority interest in income of consolidated subsidiaries	64	184
Income before income taxes	2,436	7,633
Income taxes	815	2,419
Net income	$ 1,621	5,214
PER COMMON SHARE DATA		
Basic earnings	$ 1.03	3.87
Diluted earnings	1.01	3.81
Cash dividends	$ 0.46	1.66
Average common shares Basic	1,571	1,346
Average common shares Diluted	1,603	1,370
CONSOLIDATED CONDENSED PERIOD-END BALANCE SHEET		
Cash and cash equivalents	$ 38,227	38,591
Trading account assets	47,149	45,932
Securities	116,731	110,597
Loans, net of unearned income	227,266	223,840
Allowance for loan losses	(2,732)	(2,757)
Loans, net	224,534	221,083
Loans held for sale	14,173	12,988
Goodwill	21,635	21,526
Other intangible assets	1,428	1,581
Other assets	42,956	41,026

Total assets	$ 506,833	493,324
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	297,657	295,053
Short-term borrowings	73,401	63,406
Trading account liabilities	22,418	21,709
Other liabilities	16,147	16,262
Long-term debt	47,932	46,759
Total liabilities	457,555	443,189
Minority interest in net assets of consolidated subsidiaries	2,811	2,818
Stockholders equity	46,467	47,317
Total liabilities and stockholders equity	$ 506,833	493,324

Table of Contents

CAPITALIZATION

The following table sets forth the unaudited capitalization of Wachovia at March 31, 2005.

(In millions)	March 31, 2005
Long-term Debt	
Total long-term debt	$ 47,932
Stockholders Equity	
Dividend Equalization Preferred shares, issued 97 million shares	
Common stock, authorized 3 billion shares, issued 1.576 billion shares	5,255
Paid-in capital	30,976
Retained earnings	10,319
Accumulated other comprehensive income, net	(83)
Total stockholders equity	46,467
Total long-term debt and stockholders equity	$ 94,399

As of the date of this prospectus, there has been no material change in the capitalization of Wachovia since March 31, 2005.

REGULATORY CONSIDERATIONS

As a financial holding company and a bank holding company under the Bank Holding Company Act, the Federal Reserve Board regulates, supervises and examines Wachovia. For a discussion of the material elements of the regulatory framework applicable to financial holding companies, bank holding companies and their subsidiaries and specific information relevant to Wachovia, please refer to Wachovia s annual report on Form 10-K for the fiscal year ended December 31, 2004, and any subsequent reports we file with the SEC, which are incorporated by reference in this prospectus. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of security holders. As a result of this regulatory framework, Wachovia s earnings are affected by actions of the Federal Reserve Board, the Office of Comptroller of the Currency, that regulates our banking subsidiaries, the Federal Deposit Insurance Corporation, that insures the deposits of our banking subsidiaries within certain limits, and the SEC, that regulates the activities of certain subsidiaries engaged in the securities business.

Wachovia s earnings are also affected by general economic conditions, our management policies and legislative action.

In addition, there are numerous governmental requirements and regulations that affect our business activities. A change in applicable statutes, regulations or regulatory policy may have a material effect on Wachovia s business.

Depository institutions, like Wachovia s bank subsidiaries, are also affected by various federal laws, including those relating to consumer protection and similar matters. Wachovia also has other financial services subsidiaries regulated, supervised and examined by the Federal Reserve Board, as well as other relevant state and federal regulatory agencies and self-regulatory organizations. Wachovia s non-bank subsidiaries may be subject to other laws and regulations of the federal government or the various states in which they are authorized to do business.

Table of Contents

DESCRIPTION OF THE NOTES WE MAY OFFER

The following information outlines some of the provisions of the indentures and the notes. This information may not be complete in all respects, and is qualified entirely by reference to the indenture under which the notes are issued. These indentures are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. This information relates to certain terms and conditions that generally apply to the notes. The specific terms of any series of notes will be described in the relevant pricing supplement. As you read this section, please remember that the specific terms of your note as described in your pricing supplement will supplement and, if applicable, may modify or replace the general terms described in this section. If your pricing supplement is inconsistent with this prospectus, your pricing supplement will control with regard to your note. Thus, the statements we make in this section may not apply to your note.

General

Senior notes will be issued under an indenture, dated as of April 1, 1983, as amended and supplemented, between Wachovia and JPMorgan Chase Bank, National Association, (formerly known as The Chase Manhattan Bank) as trustee. Subordinated notes will be issued under an indenture, dated as of March 15, 1986, as amended and supplemented, between Wachovia and J.P. Morgan Trust Company, National Association (formerly known as Bank One Trust Company, N.A.), as trustee. Each of the senior and the subordinated notes constitutes a single series of debt securities of Wachovia issued under the senior and the subordinated indenture, respectively. The provisions of each indenture allow us not only to issue debt securities with terms different from those of debt securities previously issued under that indenture, but also to reopen a previously issued series of debt securities and issue additional debt securities of that series. The term debt securities, as used in this prospectus, refers to all debt securities, including the notes, issued and issuable from time to time under the relevant indenture. The indentures are subject to, and governed by, the Trust Indenture Act of 1939, as amended. These indentures are more fully described below in this section. Whenever we refer to specific provisions or defined terms in one or both of the indentures, those provisions or defined terms are incorporated in this prospectus by reference. Section references used in this discussion are references to the relevant indenture. Capitalized terms which are not otherwise defined shall have the meaning given to them in the relevant indenture. As long as the notes are listed on the Luxembourg Stock Exchange, the indentures will be available for inspection at the offices of the Luxembourg Listing Agent and Luxembourg Paying Agent and Transfer Agent.

The notes will be limited to an aggregate initial offering price of $9,100,000,000, or at Wachovia s option if so specified in the relevant pricing supplement, the equivalent of this amount in any other currency or currency unit, and will be Wachovia s direct, unsecured obligations. The notes will not be deposits or other bank obligations and will not be FDIC insured.

The notes are being offered on a continuous basis by Wachovia through one or more agents listed under Plan of Distribution . The indentures do not limit the aggregate principal amount of senior or subordinated notes that we may issue. We may, from time to time, without the consent of the holders of the notes, provide for the issuance of notes or other debt securities under the indentures in addition to the $9,100,000,000 aggregate initial offering price of notes noted on the cover of this prospectus. Each note issued under this prospectus will mature nine months or more from its date of issue, as selected by the purchaser and agreed to by Wachovia and may be subject to redemption or repayment before its stated maturity. Notes may be issued at significant discounts from their principal amount due on the stated maturity (or on any prior date on which the principal or an installment of principal of a note becomes due and payable, whether by the declaration of acceleration, call for redemption at the option of Wachovia, repayment at the option of the holder or otherwise), and some notes may not bear interest. Wachovia may from time to time, without the consent of the existing holders of the relevant notes, create and issue further notes having the same terms and conditions as such notes in all respects, except for the issue date, issue price and, if applicable, the first payment of interest thereon. Additional notes issued in this manner will be consolidated with, and will form a single series with, the previously outstanding notes.

Unless we specify otherwise in the relevant pricing supplement, currency amounts in this prospectus are expressed in United States dollars. Unless we specify otherwise in any note and pricing supplement, the notes

Table of Contents

will be denominated in U.S. dollars and payments of principal, premium, if any, and any interest on the notes will be made in U.S. dollars. If any note is to be denominated other than exclusively in U.S. dollars, or if the principal of, premium, if any, or any interest on the note is to be paid in one or more currencies (or currency units or in amounts determined by reference to an index or indices) other than that in which that note is denominated, additional information (including authorized denominations and related exchange rate information) will be provided in the relevant pricing supplement. Unless we specify otherwise in any pricing supplement, notes denominated in U.S. dollars will be issued in denominations of $1,000 or any integral multiple of $1,000.

Interest rates that we offer on the notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered concurrently to different investors. We may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note we have previously issued or as to which we have accepted an offer to purchase.

Each note will be issued as a book-entry note in fully registered form without coupons. Each note issued in book-entry form will be represented by a global note that we deposit with and register in the name of a financial institution or its nominee, that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable pricing supplement, The Depository Trust Company, New York, New York, will be the depositary for all notes in global form. Except as discussed below under Global Notes , owners of beneficial interests in book-entry notes will not be entitled to physical delivery of notes in certificated form. We will make payments of principal of, and premium, if any and interest, if any, on the notes through the applicable trustee to the depositary for the notes. See Global Notes .

The indentures do not limit the aggregate principal amount of debt securities or of any particular series of debt securities which may be issued under the indentures and provide that these debt securities may be issued at various times in one or more series, in each case with the same or various maturities, at par or at a discount. (*Section 301*) The indentures provide that there may be more than one trustee under the indentures with respect to different series of debt securities. As of March 31, 2005, $16.0 billion aggregate principal amount of senior debt securities was outstanding under the senior indenture. The senior trustee is trustee for such series. As of March 31, 2005, $31.9 billion aggregate principal amount of subordinated debt securities was outstanding under the subordinated indenture. The subordinated trustee is trustee for such series.

The indentures do not limit the amount of other debt that Wachovia may issue and do not contain financial or similar restrictive covenants. As of March 31, 2005, Wachovia had an aggregate of $27.4 billion of short-term senior indebtedness outstanding which consisted primarily of commercial paper and other borrowed money. Wachovia expects from time to time to incur additional senior indebtedness and Other Financial Obligations (as defined below). The indentures do not prohibit or limit additional senior indebtedness or Other Financial Obligations.

Because Wachovia is a holding company and a legal entity separate and distinct from its subsidiaries, Wachovia s rights to participate in any distribution of assets of any subsidiary upon its liquidation, reorganization or otherwise, and the holders of notes ability to benefit indirectly from such distribution, would be subject to prior creditor s claims, except to the extent that Wachovia itself may be a creditor of that subsidiary with recognized claims. Claims on Wachovia s subsidiary banks by creditors other than Wachovia include long-term debt and substantial obligations with respect to deposit liabilities and federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and various other financial obligations. The indentures do not contain any covenants designed to afford holders of notes protection in the event of a highly leveraged transaction involving Wachovia.

Legal Ownership

Street Name and Other Indirect Holders

Investors who hold their notes in accounts at banks or brokers will generally not be recognized by us as legal holders of notes. This is called holding in street name. Instead, we would recognize only the bank or

Table of Contents

broker, or the financial institution the bank or broker uses to hold its notes. These intermediary banks, brokers and other financial institutions pass along principal, interest and other payments on the notes, either because they agree to do so in their customer agreements or because they are legally required to do so. If you hold your notes in street name, you should check with your own institution to find out:

- how it handles note payments and notices;
- whether it imposes fees or charges;
- how it would handle voting if it were ever required;
- whether and how you can instruct it to send you notes registered in your own name so you can be a direct holder as described below; and
- how it would pursue rights under the notes if there were a default or other event triggering the need for holders to act to protect their interests.

Direct Holders

Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, under the notes run only to persons who are registered as holders of notes. As noted above, we do not have obligations to you if you hold in street name or other indirect means, either because you choose to hold your notes in that manner or because the notes are issued in the form of global securities as described below. For example, once we make payment to the registered holder we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

Global Notes

A global note is a special type of indirectly held security, as described above under Street Name and Other Indirect Holders . If we choose to issue notes in the form of global notes, the ultimate beneficial owners of global notes can only be indirect holders. We require that the global note be registered in the name of a financial institution we select.

We also require that the notes included in the global note not be transferred to the name of any other direct holder except in the special circumstances described in the section Global Notes . The financial institution that acts as the sole direct holder of the global note is called the depositary. Any person wishing to own a global note must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with the depositary. The pricing supplement indicates whether your series of notes will be issued only in the form of global notes.

Further details of legal ownership are discussed in the section Global Notes below.

In the remainder of this description you or holder means direct holders and not street name or other indirect holders of notes. Indirect holders should read the previous subsection titled Street Name and Other Indirect Holders .

Types of Notes

We may issue the following four types of notes:

Fixed Rate Notes. A note of this type will bear interest at a fixed rate described in the applicable pricing supplement. This type includes zero-coupon notes, which bear no interest and are instead issued at a price lower than the principal amount.

Table of Contents

Floating Rate Notes. A note of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. The various interest rate formulas and these other features are described below in Interest Rates Floating Rate Notes . If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Indexed Notes. A note of this type provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined by reference to:

- one or more securities;
- one or more currencies;
- one or more commodities;
- any other financial, economic or other measures or instruments, including the occurrence or non-occurrence of any event or circumstance; and/or
- indices or baskets of any of these items.

If you are a holder of an indexed note, you may receive a principal amount at maturity that is greater than or less than the face amount of your note depending upon the value of the applicable index at maturity. That value may fluctuate over time. If you purchase an indexed note your pricing supplement will include information about the relevant index and about how amounts that are to become payable will be determined by reference to that index. Before you purchase any indexed note, you should read carefully the section entitled Risk Factors Risks Relating to Indexed Notes above.

Exchangeable Notes. We may issue notes, which we refer to as exchangeable notes, that are exchangeable, at our option or the option of the holder, into securities of an issuer other than Wachovia or into other property. The exchangeable notes may or may not bear interest or be issued with original issue discount or at a premium. The general terms of the exchangeable notes are described below.

Optionally Exchangeable Notes. The holder of an optionally exchangeable note may, during a period, or at specific times, exchange the note for the underlying property at a specified rate of exchange. If specified in your pricing supplement, we will have the option to redeem the optionally exchangeable note prior to maturity. If the holder of an optionally exchangeable note does not elect to exchange the note prior to maturity or any redemption date, the holder will receive the principal amount of the note plus any accrued interest at maturity or upon redemption.

Mandatorily Exchangeable Notes. At maturity, the holder of a mandatorily exchangeable note must exchange the note for the underlying property at a specified rate of exchange, and, therefore, depending upon the value of the underlying property at maturity, the holder of a mandatorily exchangeable note may receive less than the principal amount of the note at maturity. If so indicated in your pricing supplement, the specified rate at which a mandatorily exchangeable note may be exchanged may vary depending on the value of the underlying property so that, upon exchange, the holder participates in a percentage, which may be less than, equal to, or greater than 100% of the change in value of the underlying property. Mandatorily exchangeable notes may include notes where we have the right, but not the obligation, to require holders of notes to exchange their notes for the underlying property.

Payments upon Exchange. Your pricing supplement will specify if upon exchange, at maturity or otherwise, the holder of an exchangeable note may receive, at the specified exchange rate, either the underlying property or the cash value of the underlying property. The underlying property may be the securities of either U.S. or foreign entities or both. The exchangeable notes may or may not provide for

Table of Contents

protection against fluctuations in the exchange rate between the currency in which that note is denominated and the currency or currencies in which the market prices of the underlying security or securities are quoted. Exchangeable notes may have other terms, which will be specified in your pricing supplement.

Special Requirements for Exchange of Global Securities. If an optionally exchangeable note is represented by a global security, the depositary s nominee will be the holder of that note and therefore will be the only entity that can exercise a right to exchange. In order to ensure that the depositary s nominee will timely exercise a right to exchange a particular note or any portion of a particular note, the beneficial owner of the note must instruct the broker or other direct or indirect participant through which it holds an interest in that note to notify the depositary of its desire to exercise a right to exchange. Different firms have different deadlines for accepting instructions from their customers. Each beneficial owner should consult the broker or other participant through which it holds an interest in a note in order to ascertain the deadline for ensuring that timely notice will be delivered to the depositary.

Payments upon Acceleration of Maturity or upon Tax Redemption. If the principal amount payable at maturity of any exchangeable note is declared due and payable prior to maturity, the amount payable on:

- an optionally exchangeable note will equal the face amount of the note plus accrued interest, if any, to but excluding the date of payment, except that if a holder has exchanged an optionally exchangeable note prior to the date of declaration or tax redemption without having received the amount due upon exchange, the amount payable will be an amount of cash equal to the amount due upon exchange and will not include any accrued but unpaid interest; and

- a mandatorily exchangeable note will equal an amount determined as if the date of declaration or tax redemption were the maturity date plus accrued interest, if any, to but excluding the date of payment.

Original Issue Discount Notes

A fixed rate note, a floating rate note or an indexed note may be an original issue discount note. A note of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An original issue discount note may be a zero coupon note. A note issued at a discount to its principal may, for U.S. federal income tax purposes, be considered an original issue discount note, regardless of the amount payable upon redemption or acceleration of maturity. See United States Taxation below for a brief description of the U.S. federal income tax consequences of owning an original issue discount note.

Information in the Pricing Supplement

Your pricing supplement will describe one or more of the following terms of your note:

- the stated maturity;

- the specified currency or currencies for principal and interest, if not U.S. dollars;

the price at which we originally issue your note, expressed as a percentage of the principal amount, and the original issue date;

whether your note is a fixed rate note, a floating rate note, an indexed note or an exchangeable note;

if your note is a fixed rate note, the yearly rate at which your note will bear interest, if any, and the interest payment dates;

if your note is a floating rate note, the interest rate basis, which may be one of the nine interest rate bases described in Interest Rates Floating Rate Notes below; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; and the

Table of Contents

interest reset, determination, calculation and payment dates, all of which we describe under Interest Rates Floating Rate Notes below;

if your note is an indexed note, the principal amount, if any, we will pay you at maturity, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any, and whether your note will be exchangeable for or payable in cash, securities of an issuer other than Wachovia or other property;

if your note is an exchangeable note, the securities or property for which the notes may be exchanged, whether the notes are exchangeable at your option or at Wachovia s option, and the other items described in Exchangeable Notes above;

if your note is an original issue discount note, the yield to maturity;

if applicable, the circumstances under which your note may be redeemed at our option before the stated maturity, including any redemption commencement date, redemption price(s) and redemption period(s);

if applicable, the circumstances under which you may demand repayment of your note before the stated maturity, including any repayment commencement date, repayment price(s) and repayment period(s);

any special United States federal income tax consequences of the purchase, ownership or disposition of a particular issuance of notes;

the use of proceeds, if materially different than those discussed in this prospectus; and

any other terms of your note, which could be different from those described in this prospectus.

Market-Making Transactions. If you purchase your note in a market-making transaction, you will receive information about the price you pay and your trade and settlement dates in a separate confirmation of sale. A market-making transaction is one in which Wachovia Securities or another of our affiliates resells a note that it has previously acquired from another holder. A market-making transaction in a particular note occurs after the original sale of the note.

Redemption at the Option of Wachovia; No Sinking Fund

If an initial redemption date is specified in the applicable pricing supplement, we may redeem the particular notes prior to their stated maturity date at our option on any date on or after that initial redemption date in whole or from time to time in part in increments of $1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least $1,000 or other minimum authorized denomination applicable thereto), at the applicable redemption price (as defined below), together with unpaid interest accrued thereon to the date of redemption. We must give written notice to registered holders of the particular notes to be redeemed at our option not more than 60 nor less than 30 calendar days prior to the date of redemption. Redemption price , with respect to a note, means an amount equal to the initial redemption percentage specified in the applicable pricing supplement (as adjusted by the annual redemption percentage reduction, if applicable) multiplied by the unpaid principal amount thereof to be redeemed. The initial redemption percentage, if any, applicable to a note shall decline at each anniversary of the initial redemption date by an amount equal to the applicable annual redemption percentage reduction, if any, until the redemption price is equal to 100% of the unpaid principal amount thereof to be redeemed.

The notes will not be subject to, or entitled to the benefit of, any sinking fund.

Table of Contents

Repayment at the Option of the Holder

If one or more optional repayment dates are specified in the applicable pricing supplement, registered holders of the particular notes may require us to repay those notes prior to their stated maturity date on any optional repayment date in whole or from time to time in part in increments of $1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least $1,000 or other minimum authorized denomination applicable thereto), at a repayment price equal to 100% of the unpaid principal amount thereof to be repaid, together with unpaid interest accrued thereon to the date of repayment. A registered holder s exercise of the repayment option will be irrevocable.

For any note to be repaid, the applicable trustee must receive, at its corporate trust office in the Borough of Manhattan, The City of New York, not more than 60 nor less than 30 calendar days prior to the date of repayment, the particular notes to be repaid and, in the case of a book-entry note, repayment instructions from the applicable beneficial owner (as defined below) to the depositary and forwarded by the depositary.

Only the depositary may exercise the repayment option in respect of global notes representing book-entry notes. Accordingly, beneficial owners of global notes that desire to have all or any portion of the book-entry notes represented thereby repaid must instruct the participant (as defined below) through which they own their interest to direct the depositary to exercise the repayment option on their behalf by forwarding the repayment instructions to the applicable trustee as aforesaid. In order to ensure that these instructions are received by the applicable trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before that participant s deadline for accepting instructions for that day. Different firms may have different deadlines for accepting instructions from their customers. Accordingly, beneficial owners should consult their participants for the respective deadlines. All instructions given to participants from beneficial owners of global notes relating to the option to elect repayment shall be irrevocable. In addition, at the time repayment instructions are given, each beneficial owner shall cause the participant through which it owns its interest to transfer the beneficial owner s interest in the global note representing the related book-entry notes, on the depositary s records, to the applicable trustee. See Global Notes.

If applicable, we will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders thereof.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the applicable trustee for cancellation.

Interest

Each interest-bearing note will bear interest from its date of issue at the rate per annum, in the case of a fixed rate note, or pursuant to the interest rate formula, in the case of a floating rate note, in each case as specified in the applicable pricing supplement, until the principal thereof is paid. We will make interest payments in respect of fixed rate notes and floating rate notes in an amount equal to the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be (each, an interest period).

Interest on fixed rate notes and floating rate notes will be payable in arrears on each interest payment date and on the maturity date. The first payment of interest on any note originally issued between a regular record date and the related interest payment date will be made on the interest payment date immediately following the next succeeding record date to the registered holder on the next succeeding record date. The

Table of Contents

regular record date shall be the fifteenth calendar day, whether or not a business day , immediately preceding the related interest payment date. Business Day is defined below under Interest Rates Special Rate Calculation Terms . For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your note, if it bears interest.

Fixed Rate Notes

The relevant pricing supplement will specify the interest payment dates for a fixed rate note as well as the maturity date. Interest on fixed rate notes will be computed on the basis of a 360-day year of twelve 30-day months or such other day count fraction set forth in the pricing supplement.

If any interest payment date or the maturity date of a fixed rate note falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and/or interest on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Floating Rate Notes

In this subsection, we use several specialized terms relating to the manner in which floating interest rates are calculated. These terms appear in ***bold, italicized*** *type the first time they appear, and we define these terms in Special Rate Calculation Terms at the end of this subsection.*

The following will apply to floating rate notes.

Interest Rate Basis. We currently expect to issue floating rate notes that bear interest at rates based on one or more of the following interest rate bases:

- commercial paper rate;
- prime rate;

LIBOR;

EURIBOR;

treasury rate;

CMT rate;

CD rate;

consumer price index (CPI) rate; and/or

federal funds rate.

We describe each of the interest rate bases in further detail below in this subsection. If you purchase a floating rate note, your pricing supplement will specify the interest rate basis that applies to your note.

Calculation of Interest. Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. That institution may include any affiliate of ours, such as Wachovia Securities or Wachovia Bank, National Association. If other than Wachovia

Table of Contents

Securities or Wachovia Bank, National Association, the pricing supplement for a particular floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the note without your consent and without notifying you of the change.

For each floating rate note, the calculation agent will determine, on no later than the corresponding interest calculation date or on the interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period i.e., the period from and including the original issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date. For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the floating rate note by an accrued interest factor for the interest period. This factor will equal the sum of the interest factors calculated for each day during the interest period. The interest factor for each day will be expressed as a decimal and will be calculated by dividing the interest rate, also expressed as a decimal, applicable to that day by 360 or by the actual number of days in the year, as specified in the relevant pricing supplement.

Upon the request of the holder of any floating rate note, the calculation agent will provide for that note the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date. The calculation agent s determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to a note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or ..0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to a floating rate note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the interest rate basis that applies to a floating rate note during a particular interest period, the calculation agent may obtain rate quotes from various banks or dealers active in the relevant market, as discussed below. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any agent participating in the distribution of the relevant floating rate notes and its affiliates, and they may include affiliates of Wachovia.

Initial Interest Rate. For any floating rate note, the interest rate in effect from the original issue date to the first interest reset date will be the initial interest rate. We will specify the initial interest rate or the manner in which it is determined in the relevant pricing supplement.

Spread or Spread Multiplier. In some cases, the interest rate basis for a floating rate note may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or
- by multiplying the interest rate basis by a specified percentage, called the spread multiplier.

If you purchase a floating rate note, your pricing supplement will indicate whether a spread or spread multiplier will apply to your note and, if so, the amount of the spread or spread multiplier.

Table of Contents

Maximum and Minimum Rates. The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or
- a minimum rate i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase a floating rate note, your pricing supplement will indicate whether a maximum rate and/or minimum rate will apply to your note and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on a floating rate note will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than $250,000 is 16% and for any loan in the amount of $250,000 or more but less than $2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on a floating rate note.

Interest Reset Dates. The rate of interest on a floating rate note will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually. The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in the applicable pricing supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each ***business day***;
- for floating rate notes that reset weekly and are not treasury rate notes, the Wednesday of each week;
- for treasury rate notes that reset weekly, the Tuesday of each week;
- for floating rate notes that reset monthly, the third Wednesday of each month;
- for floating rate notes that reset quarterly, the third Wednesday of March, June, September and December of each year;
- for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as indicated in the relevant pricing supplement; and
- for floating rate notes that reset annually, the third Wednesday of one month of each year as indicated in the relevant pricing supplement.

For a floating rate note, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

The interest rate in effect from the original issue date to the first interest reset date will be the initial interest rate.

If any interest reset date for a floating rate note would otherwise be a day that is not a business day, the interest reset date will be postponed to the next day that is a business day. For a LIBOR or EURIBOR note, however, if that business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.

Table of Contents

Interest Determination Dates. The interest rate that takes effect on an interest reset date will be determined by the calculation agent by reference to a particular date called an interest determination date. Except as otherwise indicated in the relevant pricing supplement:

- for commercial paper rate, federal funds rate and prime rate notes, the interest determination date relating to a particular interest reset date will be the business day preceding the interest reset date;

- for CD rate, CPI rate, and CMT rate notes, the interest determination date relating to a particular interest reset date will be the second business day preceding the interest reset date;

- for LIBOR notes, the interest determination date relating to a particular interest reset date will be the second ***London business da***y preceding the interest reset date, unless the ***index currency*** is pounds sterling, in which case the interest determination date will be the interest reset date. We refer to an interest determination date for a LIBOR note as a LIBOR interest determination date;

- for EURIBOR notes, the interest determination date relating to a particular interest reset date will be the second ***euro business day*** preceding the interest reset date. We refer to an interest determination date for a EURIBOR note as a EURIBOR interest determination date; and

- for treasury rate notes, the interest determination date relating to a particular interest reset date, which we refer to as a treasury interest determination date, will be the day of the week in which the interest reset date falls on which treasury bills i.e., direct obligations of the U.S. government would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that the auction may be held on the preceding Friday. If as the result of a legal holiday an auction is held on the preceding Friday, that Friday will be the treasury interest determination date relating to the interest reset date occurring in the next succeeding week.

The interest determination date pertaining to a floating rate note the interest rate of which is determined with reference to two or more interest rate bases will be the latest business day which is at least two business days before the related interest reset date for the applicable floating rate note on which each interest rate basis is determinable.

Interest Calculation Dates. As described above, the interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date. Except for LIBOR notes and EURIBOR notes, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date will be the earlier of the following:

- the tenth calendar day after the interest determination date or, if that tenth calendar day is not a business day, the next succeeding business day; and

- the business day immediately preceding the interest payment date or the maturity, whichever is the day on which the next payment of interest will be due.

The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Payment Dates. The interest payment dates for a floating rate note will depend on when the interest rate is reset and, unless we specify otherwise in the relevant pricing supplement, will be as follows:

- for floating rate notes that reset daily, weekly or monthly, the third Wednesday of each month or the third Wednesday of March, June, September and December of each year, as specified in the relevant pricing supplement;

- for floating rate notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

for floating rate notes that reset semi-annually, the third Wednesday of the two months of each year specified in the relevant pricing supplement; or

for floating rate notes that reset annually, the third Wednesday of the month specified in the relevant pricing supplement.

Regardless of these rules, if a note is originally issued after the regular record date and before the date that would otherwise be the first interest payment date, the first interest payment date will be the date that would otherwise be the second interest payment date.

In addition, the following special provision will apply to a floating rate note with regard to any interest payment date other than one that falls on the maturity. If the interest payment date would otherwise fall on a day that is not a business day, then the interest payment date will be the next day that is a business day. However, if the floating rate note is a LIBOR note or a EURIBOR note and the next business day falls in the next calendar month, then the interest payment date will be advanced to the next preceding day that is a business day. If the maturity date of a floating rate note falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and interest on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Calculation Agent. We have initially appointed Wachovia Capital Markets, LLC as our calculation agent for the notes. See Calculation of Interest above for details regarding the role of the calculation agent.

Commercial Paper Rate Notes

If you purchase a commercial paper rate note, your note will bear interest at an interest rate equal to the commercial paper rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

The commercial paper rate will be the ***money market yield*** of the rate, for the relevant interest determination date, for commercial paper having the ***index maturity*** indicated in your pricing supplement, as published in ***H.15(519)*** under the heading Commercial Paper Nonfinancial . If the commercial paper rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the commercial paper rate will be the rate, for the relevant interest determination date, for commercial paper having the index maturity specified in your pricing supplement, as published in ***H.15 daily update*** or any other recognized electronic source used for displaying that rate, under the heading Commercial Paper Nonfinancial .

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the commercial paper rate will be the money market yield of the arithmetic mean of the following offered rates for U.S. dollar commercial paper that has the relevant index maturity and is placed for an industrial issuer whose bond rating is AA , or the equivalent, from a nationally recognized rating agency: the rates offered as of 11:00 A.M., New York City time, on the relevant interest determination date, by three leading U.S. dollar commercial paper dealers in New York City selected by the calculation agent.

If fewer than three dealers selected by the calculation agent are quoting as described above, the commercial paper rate for the new interest period will be the commercial paper rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Table of Contents

Prime Rate Notes

If you purchase a prime rate note, your note will bear interest at an interest rate equal to the prime rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

The prime rate will be the rate, for the relevant interest determination date, published in H.15(519) under the heading Bank Prime Loan . If the prime rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the prime rate will be the rate, for the relevant interest determination date, as published in H.15 daily update or another recognized electronic source used for the purpose of displaying that rate, under the heading Bank Prime Loan .

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the prime rate will be the arithmetic mean of the following rates as they appear on the ***Reuters screen US PRIME 1 page***: the rate of interest publicly announced by each bank appearing on that page as that bank s prime rate or base lending rate, as of 11:00 A.M., New York City time, on the relevant interest determination date.

If fewer than four of these rates appear on the Reuters screen US PRIME 1 page, the prime rate will be the arithmetic mean of the prime rates or base lending rates, as of the close of business on the relevant interest determination date, of three major banks in New York City selected by the calculation agent. For this purpose, the calculation agent will use rates quoted on the basis of the actual number of days in the year divided by a 360-day year.

If fewer than three banks selected by the calculation agent are quoting as described above, the prime rate for the new interest period will be the prime rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

LIBOR Notes

If you purchase a LIBOR note, your note will bear interest at an interest rate equal to LIBOR, which will be the London interbank offered rate for deposits in U.S. dollars or any other index currency, as noted in your pricing supplement. In addition, when LIBOR is the interest rate basis the applicable LIBOR rate will be adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement. LIBOR will be determined in the following manner:

LIBOR will be either:

the offered rate appearing on the ***Telerate LIBOR page***; or the arithmetic mean of the offered rates appearing on the ***Reuters screen LIBOR page*** unless that page by its terms cites only one rate, in which case that rate;

in either case, as of 11:00 A.M., London time, on the relevant LIBOR interest determination date, for deposits of the relevant index currency having the relevant index maturity beginning on the relevant interest reset date. Your pricing supplement will indicate the index currency, the index maturity and the reference page that apply to your LIBOR note. If no reference page is mentioned in your pricing supplement, Telerate LIBOR page will apply to your LIBOR note.

If Telerate LIBOR page applies and the rate described above does not appear on that page, or if Reuters screen LIBOR page applies and fewer than two of the rates described above appears on that page or no rate appears on any page on which only one rate normally appears, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the calculation agent: deposits of the index currency having the relevant index maturity, beginning on the relevant interest reset date, and in a ***representative amount***. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the principal financial center for the country of the index currency, on that LIBOR interest determination date, by three major banks in that financial center selected by the calculation agent: loans of the index currency having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount.

If fewer than three banks selected by the calculation agent are quoting as described above, LIBOR for the new interest period will be LIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

EURIBOR Notes

If you purchase a EURIBOR note, your note will bear interest at an interest rate equal to the interest rate for deposits in euro, designated as EURIBOR and sponsored jointly by the European Banking Federation and ACI the Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing that rate. In addition, when EURIBOR is the interest rate basis the EURIBOR base rate will be adjusted by the spread or spread multiplier, if any, specified in your pricing supplement. EURIBOR will be determined in the following manner:

EURIBOR will be the offered rate for deposits in euros having the index maturity specified in your pricing supplement, beginning on the second ***euro business day*** after the relevant EURIBOR interest determination date, as that rate appears on ***Telerate pag***e 248 as of 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date.

If the rate described above does not appear on Telerate page 248, EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the ***euro-zone*** interbank market by the principal euro-zone office of each of four major banks in that market selected by the calculation agent: euro deposits having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR interest determination date, by three major banks in the euro-zone selected by the calculation agent: loans of euros having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount.

If fewer than three banks selected by the calculation agent are quoting as described above, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

25

Table of Contents

Treasury Rate Notes

If you purchase a treasury rate note, your note will bear interest at an interest rate equal to the treasury rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

The treasury rate will be the rate for the auction, on the relevant treasury interest determination date, of treasury bills having the index maturity specified in your pricing supplement, as that rate appears on Telerate page 56 or 57 under the heading Investment Rate . If the treasury rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear on either page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, the treasury rate will be the ***bond equivalent yield*** of the rate, for the relevant interest determination date, for the type of treasury bill described above, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Auction High .

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the auction rate, for the relevant treasury interest determination date and for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

If the auction rate described in the prior paragraph is not so announced by 3:00 P.M., New York City time, on the relevant interest calculation date, or if no such auction is held for the relevant week, then the treasury rate will be the bond equivalent yield of the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15(519) under the heading U.S. Government Securities /Treasury Bills/Secondary Market .

If the rate described in the prior paragraph does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the treasury rate will be the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Secondary Market .

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the arithmetic mean of the following secondary market bid rates for the issue of treasury bills with a remaining maturity closest to the specified index maturity: the rates bid as of approximately 3:30 P.M., New York City time, on the relevant treasury interest determination date, by three primary U.S. government securities dealers in New York City selected by the calculation agent.

If fewer than three dealers selected by the calculation agent are quoting as described in the prior paragraph, the treasury rate in effect for the new interest period will be the treasury rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CD Rate Notes

If you purchase a CD rate note, your note will bear interest at an interest rate equal to the CD rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

Table of Contents

The CD rate will be the rate, on the relevant interest determination date, for negotiable U.S. dollar certificates of deposit having the index maturity specified in your pricing supplement, as published in H.15(519) under the heading CDs (Secondary Market) . If the CD rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CD rate will be the rate, for the relevant interest determination date, described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading CDs (Secondary Market).

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the CD rate will be the arithmetic mean of the following secondary market offered rates for negotiable U.S. dollar certificates of deposit of major U.S. money market banks with a remaining maturity closest to the specified index maturity, and in a representative amount: the rates offered as of 10:00 A.M., New York City time, on the relevant interest determination date, by three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in New York City, as selected by the calculation agent.

If fewer than three dealers selected by the calculation agent are quoting as described above, the CD rate in effect for the new interest period will be the CD rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CMT Rate Notes

If you purchase a CMT rate note, your note will bear interest at an interest rate equal to the CMT rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

The CMT rate will be the following rate displayed on the designated ***CMT Moneyline Telerate page*** under the heading . . . Treasury Constant Maturities . . . Federal Reserve Board Release H.15 Mondays Approximately 3:45 P.M., under the column for the ***designated CMT index maturity***:

if the designated CMT Moneyline Telerate page is Telerate page 7051, the rate for the relevant interest determination date; or

if the designated CMT Moneyline Telerate page is Telerate page 7052, the weekly or monthly average, as specified in your pricing supplement, for the week that ends immediately before the week in which the relevant interest determination date falls, or for the month that ends immediately before the month in which the relevant interest determination date falls, as applicable.

If the CMT rate cannot be determined in this manner, the following procedures will apply.

If the applicable rate described above is not displayed on the relevant designated CMT Moneyline Telerate page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CMT rate will be the applicable treasury constant maturity rate described above i.e., for the designated CMT index maturity and for either the relevant interest determination date or the weekly or monthly average, as applicable as published in H.15(519).

If the applicable rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the treasury constant maturity rate, or other U.S. treasury rate, for the designated CMT index maturity and with reference to the relevant interest determination date, that:

- is published by the Board of Governors of the Federal Reserve System, or the U.S. Department of the Treasury; *and*

- is determined by the calculation agent to be comparable to the applicable rate formerly displayed on the designated CMT Moneyline Telerate page and published in H.15(519).

If the rate described in the prior paragraph does not appear at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for the most recently issued treasury notes having an original maturity of approximately the designated CMT index maturity and a remaining term to maturity of not less than the designated CMT index maturity *minus* one year, and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these bid rates, the calculation agent will request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. Treasury notes are direct, non-callable, fixed rate obligations of the U.S. government.

If the calculation agent is unable to obtain three quotations of the kind described in the prior paragraph, the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for treasury notes with an original maturity longer than the designated CMT index maturity, with a remaining term to maturity closest to the designated CMT index maturity and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these bid rates, the calculation agent will request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. If two treasury notes with an original maturity longer than the designated CMT index maturity have remaining terms to maturity that are equally close to the designated CMT index maturity, the calculation agent will obtain quotations for the treasury note with the shorter remaining term to maturity.

If fewer than five but more than two of these primary dealers are quoting as described in the prior paragraph, then the CMT rate for the relevant interest determination date will be based on the arithmetic mean of the bid rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

If two or fewer primary dealers selected by the calculation agent are quoting as described above, the CMT rate in effect for the new interest period will be the CMT rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CPI Rate Notes

If you purchase a CPI rate note, your note will bear interest at an interest rate equal to the CPI rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

Except as otherwise specified in the applicable pricing supplement, the CPI rate will be the rate, determined as of the relevant interest determination date, expressed as a percentage and calculated in accordance with the following formula:

$$\text{CPI rate} = \frac{(C \quad P)}{P} \qquad 1$$

where

C means the CPI (as defined below) applicable for the calendar month which is two months preceding the month of the relevant interest determination date;

P means the CPI applicable for the calendar month which is twelve months immediately preceding the calendar month for which C is determined; and

CPI means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. For reference purposes only, the CPI is available on Bloomberg page CPURNSA or any successor service. In the event of an inconsistency between the CPI published on Bloomberg page CPURNSA and the CPI published by the Bureau of Labor Statistics, the CPI shall be the CPI published by the Bureau of Labor Statistics.

Federal Funds Rate Notes

If you purchase a federal funds rate note, your note will bear interest at an interest rate equal to the federal funds rate and adjusted by the spread or spread multiplier, if any, indicated in your pricing supplement.

The federal funds rate will be the rate for U.S. dollar federal funds on the relevant interest determination date, as published in H.15 (519) under the heading Federal Funds (Effective) , as that rate is displayed on Telerate page 120. If the federal funds rate cannot be determined in this manner, the following procedures will apply.

If the rate described above is not displayed on Telerate page 120 at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the federal funds rate, for the relevant interest determination date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading Federal Funds (Effective) .

If the rate described above is not displayed on Telerate page 120 and does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the federal funds rate will be the arithmetic mean of the rates for the last transaction in overnight, U.S. dollar federal funds arranged, before 9:00 A.M., New York City time, on the relevant interest determination date, by three leading brokers of U.S. dollar federal funds transactions in New York City selected by the calculation agent.

If fewer than three brokers selected by the calculation agent are quoting as described above, the federal funds rate in effect for the new interest period will be the federal funds rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

If fewer than five but more than two of these primary dealers are quoting as described in the prior paragraph, then the CMT rate for the relevant interest determination date will be based on the arithmetic mean of the offered rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

Table of Contents

Special Rate Calculation Terms

In this subsection entitled Interest Rates , we use several terms that have special meanings relevant to calculating floating interest rates. We define these terms as follows:

The term ***bond equivalent yield*** means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where

D means the annual rate for treasury bills quoted on a bank discount basis and expressed as a decimal;

N means 365 or 366, as the case may be; and

M means the actual number of days in the applicable interest reset period.

The term ***business day*** means, for any note, a day that meets all the following applicable requirements:

for all notes, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close;

if the note is a LIBOR note, is also a London business day;

if the note has a specified currency other than U.S. dollars or euros, is also a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in the principal financial center of the country issuing the specified currency; and

if the note is a EURIBOR note or has a specified currency of euros, or is a LIBOR note for which the index currency is euros, is also a TARGET business day.

The term ***designated CMT index maturity*** means the index maturity for a CMT rate note and will be the original period to maturity of a U.S. treasury security either 1, 2, 3, 5, 7, 10, 20 or 30 years specified in the applicable pricing supplement.

The term ***designated CMT Moneyline Telerate page*** means the Telerate page mentioned in the relevant pricing supplement that displays treasury constant maturities as reported in H.15(519). If no Telerate page is so specified, then the applicable page will be Telerate page 7052. If Telerate page 7052 applies but the relevant pricing supplement does not specify whether the weekly or monthly average applies, the weekly average will apply.

The term ***euro business day*** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business.

The term ***euro-zone*** means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on European Union of February 1992.

H.15(519) means the weekly statistical release entitled Statistical Release H.15 (519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 daily update means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System, at http://www.federalreserve.gov/releases/h15/update, or any successor site or publication.

Table of Contents

The term *__index currency__* means, with respect to a LIBOR note, the currency specified as such in the relevant pricing supplement. The index currency may be U.S. dollars or any other currency, and will be U.S. dollars unless another currency is specified in the relevant pricing supplement.

The term *__index maturity__* means, with respect to a floating rate note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement.

__London business day__ means any day on which dealings in the relevant index currency are transacted in the London interbank market.

The term *__money market yield__* means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where

D means the annual rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and

M means the actual number of days in the relevant interest reset period.

The term *__representative amount__* means an amount that, in the calculation agent s judgment, is representative of a single transaction in the relevant market at the relevant time.

__Reuters screen LIBOR page__ means the display on the Reuters Monitor Money Rates Service, or any successor service, on the page designated as LIBO or any replacement page or pages on which London interbank rates of major banks for the relevant index currency are displayed.

__Reuters screen US PRIME 1 page__ means the display on the US PRIME 1 page on the Reuters Monitor Money Rates Service, or any successor service, or any replacement page or pages on that service, for the purpose of displaying prime rates or base lending rates of major U.S. banks.

__Telerate LIBOR page__ means Telerate page 3750 or any replacement page or pages on which London interbank rates of major banks for the relevant index currency are displayed.

Telerate page means the display on Moneyline Telerate, or any successor service, on the page or pages specified in this prospectus or the relevant pricing supplement, or any replacement page or pages on that service.

If, when we use the terms designated CMT Moneyline Telerate page, H.15(519), H.15 daily update, Reuters screen LIBOR page, Reuters screen US PRIME 1 page, Telerate LIBOR page or Telerate page, we refer to a particular heading or headings on any of those pages, those references include any successor or replacement heading or headings as determined by the calculation agent.

Payment of Additional Amounts to United States Aliens

Wachovia will, subject to certain exceptions and limitations listed below (unless otherwise specified in any pricing supplement), pay to the holder of any note who is a United States Alien (as defined below), as additional interest, certain amounts (Additional Amounts) as may be necessary so that every net payment on that note (including payment of the principal of and interest on that note) by Wachovia or a paying agent, after deduction or withholding for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by the United States (or any political subdivision or taxing authority of or in the United States), will not be less than the amount provided in that note to be then due and payable; this obligation to pay Additional Amounts, however, will not apply to:

(a) any tax, assessment or other governmental charge that would not have been so imposed but for (i) the existence of any present or former connection between the holder or beneficial owner of that note (or between a fiduciary, settlor or beneficiary of, or a person holding a power over, that holder, if that holder is an estate or a trust, or a member or shareholder of that holder, if that holder is a partnership or corporation) and the United States or any political subdivision or taxing authority, including but not limited to that holder (or the fiduciary, settlor, beneficiary, person holding a power, member or shareholder) being or having been a citizen or resident of the United States or treated as a resident of the United States or being or having been engaged in a trade or business in the United States or present in the United States or having or having had a permanent establishment in the United States or (ii) that holder s or beneficial owner s past or present status as a personal holding company, foreign personal holding company, foreign private foundation or other foreign tax-exempt organization relating to the United States, controlled foreign corporation for United States tax purposes or corporation that accumulates earnings to avoid United States Federal income tax;

(b) any estate, inheritance, gift, excise, sales, transfer, wealth or personal property tax or any similar tax, assessment or other governmental charge;

(c) any tax, assessment or other governmental charge that would not have been imposed but for the presentation by the holder of a note for payment more than 30 days after the date on which that payment became due and payable or the date on which payment on that note was duly provided for, whichever occurred later;

(d) any tax, assessment or other governmental charge that is payable otherwise than by withholding from a payment on a note;

(e) any tax, assessment or other governmental charge required to be withheld by any paying agent from a payment on a note, if that payment can be made without that withholding by any other paying agent;

(f) any tax, assessment or other governmental charge that would not have been imposed but for a failure to comply with applicable certification, information, documentation, identification or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of a note if that compliance is required by statute or regulation of the United States or by an applicable tax treaty to which the United States is a party as a precondition to relief or exemption from that tax, assessment or other governmental charge;

(g) any tax, assessment or other governmental charge imposed on a holder that actually or constructively owns 10 percent or more of the combined voting power of all classes of Wachovia s stock;

(h) any withholding or deduction imposed pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 or any law or regulation implementing such directive; or

(i) any combination of items (a), (b), (c), (d), (e), (f), (g) and (h);

nor shall Additional Amounts be paid in relation to a payment on a note to a holder that is a fiduciary or partnership or other than the sole beneficial owner of that payment to the extent a beneficiary or settlor with respect to that fiduciary or a member of that partnership or a beneficial owner would not have been entitled to Additional Amounts (or payment of Additional Amounts would not have been necessary) had that beneficiary, settlor, member or beneficial owner been the holder of that note.

For the purposes of this discussion, a United States Alien means any person who, for United States Federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for United States Federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary, of a foreign estate or trust. United States means the United States of America (including the States and the District of Columbia) and its territories, its possessions and other areas that come under its jurisdiction.

Redemption for Tax Purposes

If (a) as a result of any change in the laws, regulations or rulings of the United States (or any political subdivision or taxing authority of or in the United States), or any change in the official application (including a ruling by a court of competent jurisdiction in the United States) or interpretation of those laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the consummation of any offering of the notes, Wachovia is obligated to pay Additional Amounts as described above or (b) any act is taken by a taxing authority of the United States on or after the consummation of any offering of the notes, whether or not this act is taken in relation to Wachovia or any affiliate, that results in a substantial likelihood that Wachovia will or may be required to pay these Additional Amounts, then Wachovia may, at its option, redeem, as a whole, but not in part, the notes on not less than 30 nor more than 60 days prior notice, at a redemption price equal to 100% of their principal amount, together with accrued interest to the date fixed for redemption; provided that Wachovia determines, in its business judgment, that the obligation to pay these Additional Amounts cannot be avoided by the use of reasonable measures available to it, not including substitution of the obligor under the notes or any action that would entail a material cost to Wachovia. No redemption under (b) above may be made unless Wachovia shall have received an opinion of independent counsel to the effect that an act taken by a taxing authority of the United States results in a substantial likelihood that it will or may be required to pay Additional Amounts described above and Wachovia shall have delivered to the Trustee a certificate, signed by a duly authorized officer, saying that based on this opinion Wachovia is entitled to redeem the notes according to their terms.

Other Provisions; Addenda

Any provisions relating to the notes, including the determination of the interest rate basis, calculation of the interest rate applicable to a floating rate note, its interest payment dates, any redemption or repayment provisions, or any other term relating thereto, may be modified and/or supplemented by the terms as specified under Other Provisions on the face of the applicable notes or in an Addendum relating to the applicable notes, if so specified on the face of the applicable notes, and, in each case, in the relevant pricing supplement.

Subordination of the Subordinated Notes

Wachovia s obligations to make any payment of the principal and interest on any subordinated notes will, to the extent the subordinated indenture specifies, be subordinate and junior in right of payment to all of Wachovia s senior indebtedness. Unless otherwise specified in the pricing supplement relating to a specific series of subordinated notes, Wachovia s senior indebtedness is defined in the subordinated indenture to mean the principal of, premium and interest, if any, on

- all Wachovia indebtedness for money borrowed, including indebtedness Wachovia guarantees, other than the subordinated notes, whether outstanding on the date of execution of the indenture or incurred afterward, except
  - any obligations on account of Existing Subordinated Indebtedness and

indebtedness as is by its terms expressly stated to be not superior in payment right to the subordinated notes or to rank equal to the subordinated notes and

any deferrals, renewals or extensions of any such senior indebtedness. (*Section 101* of the subordinated indenture)

Table of Contents

The payment of the principal and interest on the subordinated notes will, to the extent described in the subordinated indenture, be subordinated in payment right to the prior payment of all senior indebtedness. Unless otherwise described in the pricing supplement relating to the specific series of subordinated notes, in certain events of insolvency, the payment of the principal and interest on the subordinated notes, other than subordinated notes that are also Existing Subordinated Indebtedness, will, to the extent described in the subordinated indenture, also be effectively subordinated in payment right to the prior payment of all Other Financial Obligations. Upon any payment or distribution of assets to creditors under Wachovia s liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, or any bankruptcy, insolvency or similar proceedings, all senior indebtedness holders will be entitled to receive payment in full of all amounts due before the subordinated note holders will be entitled to receive any payment in respect of the principal or interest on their securities. If upon any such payment or asset distribution to creditors, there remains, after giving effect to those subordination provisions in favor of senior indebtedness holders, any amount of cash, property or securities available for payment or distribution in respect of subordinated notes (defined in the subordinated indenture as Excess Proceeds) and if, at that time, any Entitled Persons (as defined below) in respect of Other Financial Obligations have not received payment of all amounts due on such Other Financial Obligations, then such Excess Proceeds shall first be applied to pay these Other Financial Obligations before any payment may be applied to the subordinated notes which are not Existing Subordinated Indebtedness. In the event of the acceleration of the maturity of any subordinated notes, all senior indebtedness holders will be entitled to receive payment of all amounts due before the subordinated note holders will be entitled to receive any payment upon the principal of or interest on their subordinated notes. (*Sections 1403, 1404 and 1413* of the subordinated indenture)

By reason of such subordination in favor of senior indebtedness holders, in the event of insolvency, Wachovia s creditors who are not senior indebtedness holders or subordinated note holders may recover less, ratably, than senior indebtedness holders and may recover more, ratably, than subordinated note holders. By reason of subordinated note holders (other than Existing Subordinated Indebtedness) to pay over any Excess Proceeds to Entitled Persons in respect to Other Financial Obligations, in the event of insolvency, Existing Subordinated Indebtedness holders may recover less, ratably, than Entitled Persons in respect of Other Financial Obligations and may recover more, ratably, than the subordinated note holders (other than Existing Subordinated Indebtedness).

Unless otherwise specified in the pricing supplement relating to the particular subordinated notes series offered by it, Existing Subordinated Indebtedness means subordinated notes issued under the subordinated indenture prior to November 15, 1992. (*Section 101* of the subordinated indenture)

Unless otherwise specified in the pricing supplement relating to the particular subordinated notes series offered by it, Other Financial Obligations means all obligations of Wachovia to make payment under the terms of financial instruments, such as

- securities contracts and foreign currency exchange contracts;
- derivative instruments such as
  - swap agreements (including interest rate and foreign exchange rate swap agreements);
  - cap agreements;
  - floor agreements;
  - collar agreements;

interest rate agreements;

foreign exchange rate agreements;

options;

Table of Contents

- commodity futures contracts;
- commodity option contracts; and

similar financial instruments other than

- obligations on account of senior indebtedness; and
- obligations on account of indebtedness for money borrowed ranking equal or subordinate to the subordinated notes. (*Section 101* of the subordinated indenture)

Unless otherwise described in the pricing supplement relating to a specific series of subordinated notes, Entitled Persons means any person who is entitled to payment under the terms of Other Financial Obligations. (*Section 101* of the subordinated indenture)

Wachovia s obligations under the subordinated notes shall rank equal in right of payment with each other and with the Existing Subordinated Indebtedness, subject, unless otherwise described in the pricing supplement relating to a specific series of subordinated notes, to the obligations of subordinated note holders (other than Existing Subordinated Indebtedness) to pay over any Excess Proceeds to Entitled Persons in respect of Other Financial Obligations as provided in the subordinated indenture. (*Section 1413* of the subordinated indenture)

The relevant pricing supplement may further describe the provisions, if any, applicable to the subordination of the subordinated notes of a particular series.

Defaults

The Senior Indenture

The senior indenture defines an event of default as

- default in any principal or premium payment on any senior note of that series at maturity;
- default for 30 days in interest payment of any senior note of that series;
- failure to deposit any sinking fund payment when due in respect of that series;

Wachovia s failure for 60 days after notice in performing any other covenants or warranties in the senior indenture (other than a covenant or warranty solely for the benefit of other senior notes series);

failure to pay when due any Wachovia indebtedness or Wachovia Bank, National Association indebtedness in excess of $5,000,000, or maturity acceleration of any indebtedness exceeding that amount if acceleration results from a default under the instrument giving rise to that indebtedness and is not annulled within 30 days after due notice;

Wachovia s or Wachovia Bank, National Association s bankruptcy, insolvency or reorganization; and

any other event of default provided for senior notes of that series. (*Section 501*)

The senior indenture provides that, if any event of default for senior notes of any series outstanding occurs and is continuing, either the senior trustee or the holders of not less than 25% in principal amount of the outstanding senior notes of that series may declare the principal amount (or, if the notes of that series are original issue discount notes, such principal amount portion as the terms of that series specify) of all senior notes of that series to be due and payable immediately. However, no such declaration is required upon certain bankruptcy events. In addition, upon fulfillment of certain conditions, this declaration may be annulled and past defaults waived by the holders of a majority in principal amount of the outstanding senior notes of that series on behalf of all senior note holders of that series. (*Sections 502 and 513*) In the event of Wachovia s bankruptcy, insolvency or reorganization, senior note holders claims would fall under the broad equity power of a federal bankruptcy court, and to that court s determination of the nature of those holders rights.

The senior indenture contains a provision entitling the senior trustee, acting under the required standard of care, to be indemnified by the holders of any outstanding senior note series before proceeding to exercise any right or power under the senior indenture at the holders request. (*Section 603*) The holders of a majority in principal amount of outstanding senior notes of any series may direct the time, method and place of conducting any proceeding for any remedy available to the senior trustee, or exercising any trust or other power conferred on the senior trustee, with respect to the senior notes of such series. The senior trustee, however, may decline to act if that direction is contrary to law or the senior indenture or would involve the senior trustee in personal liability. (*Section 512*)

Wachovia will file annually with the senior trustee a compliance certificate as to all conditions and covenants in the senior indenture. (*Section 1007*)

The Subordinated Indenture

Subordinated notes principal payment may be accelerated only upon an event of default. There is no acceleration right in the case of a default in the payment of interest or principal prior to the maturity date or a default in Wachovia performing any covenants in the subordinated indenture, unless a specific series of subordinated notes provide otherwise, which will be described in the relevant pricing supplement.

The subordinated indenture defines an event of default as certain events involving Wachovia s bankruptcy, insolvency or reorganization and any other event of default provided for the subordinated notes of that series. (*Section 501*) The subordinated indenture defines a default to include

- any event of default;
- a default in any principal or premium payment of any subordinated debt security of that series at maturity;
- default in any interest payment when due and continued for 30 days;
- a default in any required designation of funds as available funds ; or
- default in the performance, or breach, of Wachovia s covenants in the subordinated indenture or in the subordinated notes of that series and continued for 90 days after written notice to
  - Wachovia by the subordinated trustee; or
  - Wachovia and the subordinated trustee by the holders of not less than 25% in aggregate principal amount of the outstanding subordinated notes of that series. (*Section 503*)

If an event of default for subordinated notes of any series occurs and is continuing, either the subordinated trustee or the holders of not less than 25% in aggregate principal amount of the outstanding subordinated notes of that series may accelerate the maturity of all outstanding subordinated notes of such series. The holders of a majority in aggregate principal amount of the outstanding subordinated notes of that series may waive an event of default resulting in acceleration of the subordinated notes of such series, but only if all events of default have been remedied and all payments due on the subordinated notes of that series (other than those due as a result of acceleration) have been made and certain other conditions have been met. (*Section 502*) Subject to subordinated indenture provisions relating to the subordinated trustee s duties, in case a default shall occur and be continuing, the subordinated trustee will be under no obligation to exercise any of its rights or powers under the subordinated indenture at the holders request or direction, unless such holders shall have offered to the subordinated trustee reasonable indemnity. (*Section 603*) Subject to such indemnification provisions, the holders of a majority in aggregate principal amount of the outstanding

Table of Contents

subordinated notes of that series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the subordinated trustee or exercising any trust or power conferred on the subordinated trustee. (*Section 512*) The holders of a majority in aggregate principal amount of the outstanding subordinated notes of that series may waive any past default under the subordinated indenture with respect to such series, except a default in principal or interest payment or a default of a subordinated indenture covenant which cannot be modified without the consent of each outstanding subordinated note holder of the series affected. (*Section 513*) In the event of Wachovia s bankruptcy, insolvency or reorganization, subordinated note holders claims would fall under the broad equity power of a federal bankruptcy court, and to that court s determination of the nature of those holders rights.

Wachovia will file annually with the subordinated trustee a compliance certificate as to all conditions and covenants in the subordinated indenture. (*Section 1007*)

Modification and Waiver

Each indenture may be modified and amended by Wachovia and the relevant trustee. Certain modifications and amendments require the consent of the holders of at least a majority in aggregate principal amount of the outstanding notes of each series issued under that indenture and affected by the modification or amendment. No such modification or amendment may, without the consent of the holder of each outstanding note issued under such indenture and affected by it

- change the stated maturity of the principal, or any installment of principal or interest, on any outstanding note;
- reduce any principal amount, premium or interest, on any outstanding note, including in the case of an original issue discount note the amount payable upon acceleration of the maturity of that note;
- change the place of payment where, or the coin or currency or currency unit in which, any principal, premium or interest, on any outstanding note is payable;
- impair the right to institute suit for the enforcement of any payment on or after the stated maturity, or in the case of redemption, on or after the redemption date;
- reduce the above-stated percentage of outstanding notes necessary to modify or amend the applicable indenture; or
- modify the above requirements or reduce the percentage of aggregate principal amount of outstanding notes of any series required to be held by holders seeking to waive compliance with certain provisions of the relevant indenture or seeking to waive certain defaults. (*Section 902*)

The holders of at least a majority in aggregate principal amount of the outstanding notes of any series may on behalf of all outstanding note holders of that series waive, insofar as that series is concerned, Wachovia s compliance with certain restrictive provisions of the relevant indenture. (*Section 1008*) The holders of at least a majority in aggregate principal amount of the outstanding notes of any series may on behalf of all outstanding note holders of that series waive any past default under the relevant indenture with respect to that series, except a default in the payment of the principal, or premium, if any, or interest on any outstanding note of that series or in respect of an indenture covenant which cannot be modified or amended without each outstanding note holder consenting. (*Section 513*)

Certain modifications and amendments of each indenture may be made by Wachovia and the relevant trustee without the outstanding note holders consenting. (*Section 901*)

Each indenture provides that in determining whether the holders of the requisite principal amount of the outstanding notes have given any request, demand, authorization, direction, notice, consent or waiver under that indenture or are present at a meeting of holders of outstanding notes for quorum purposes

the principal amount of an original issue discount note that shall be deemed to be outstanding shall be the amount of the principal that would be due and payable as of the date of such determination upon acceleration of its maturity; and

Table of Contents

the principal amount of outstanding notes denominated in a foreign currency or currency unit shall be the U.S. dollar equivalent, determined on the date of original issuance of that outstanding note, of the principal amount of that outstanding note or, in the case of an original issue discount note, the U.S. dollar equivalent, determined on the date of original issuance of such outstanding note, of the amount determined as provided in the above bullet-point. (*Section 101*)

Consolidation, Merger and Sale of Assets

The indentures each provide that Wachovia may not consolidate with or merge into any other corporation or transfer its properties and assets substantially as an entirety to any person unless

the corporation formed by the consolidation or into which Wachovia is merged, or the person to which Wachovia s properties and assets are so transferred, shall be a corporation organized and existing under the laws of the U.S., any state or Washington, D.C. and shall expressly assume by supplemental indenture the payment of any principal, premium or interest on the notes, and the performance of Wachovia s other covenants under the relevant indenture;

immediately after giving effect to this transaction, no event of default or default, as applicable, and no event which, after notice or lapse of time or both, would become an event of default or default, as applicable, shall have occurred and be continuing; and

certain other conditions are met. (Section 801)

Limitation on Disposition of Wachovia Bank, National Association Stock

The indentures each contain Wachovia s covenant that, so long as any of the debt securities issued under that indenture before August 1, 1990 are outstanding, but subject to Wachovia s rights in connection with its consolidation with or merger into another corporation or a sale of Wachovia s assets, it will not sell, assign, transfer, grant a security interest in or otherwise dispose of any shares of, securities convertible into, or options, warrants or rights to subscribe for or purchase shares of, Wachovia Bank, National Association voting stock, nor will it permit Wachovia Bank, National Association to issue any shares of, or securities convertible into, or options, warrants or rights to subscribe for or purchase shares of, Wachovia Bank, National Association voting stock, unless

any such sale, assignment, transfer, issuance, grant of a security interest or other disposition is made for fair market value, as determined by Wachovia s board; and

Wachovia will own at least 80% of the issued and outstanding Wachovia Bank, National Association voting stock free and clear of any security interest after giving effect to such transaction. (Section 1006)

The above covenant is not a covenant for the benefit of any series of notes issued on or after August 1, 1990.

Restriction on Sale or Issuance of Voting Stock of Major Subsidiary Bank

With respect to the senior notes, the senior indenture contains Wachovia s covenant that it will not, and will not permit any subsidiary to, sell, assign, transfer, grant a security interest in, or otherwise dispose of, any shares of voting stock, or any securities convertible into shares of voting stock, of any Major Subsidiary Bank (as defined below) or any subsidiary owning, directly or indirectly, any shares of voting stock of any Major Subsidiary Bank and that it will not permit any Major Subsidiary Bank or any subsidiary owning, directly or indirectly, any shares of voting stock of a Major Subsidiary Bank to issue any shares of its voting stock or any securities convertible into shares of its voting stock, except for sales, assignments, transfers or other dispositions which

are for the purpose of qualifying a person to serve as a director;

38

Table of Contents

are for fair market value, as determined by Wachovia s board, and, after giving effect to such dispositions and to any potential dilution, Wachovia will own not less than 80% of the shares of voting stock of such Major Subsidiary Bank or any such subsidiary owning any shares of voting stock of such Major Subsidiary Bank;

are made

in compliance with court or regulatory authority order; or

in compliance with a condition imposed by any such court or authority permitting Wachovia s acquisition of any other bank or entity; or

in compliance with an undertaking made to such authority in connection with such an acquisition; provided, in the case of the two preceding bullet-points, the assets of the bank or entity being acquired and its consolidated subsidiaries equal or exceed 75% of the assets of such Major Subsidiary Bank or such subsidiary owning, directly or indirectly, any shares of voting stock of a Major Subsidiary Bank and its respective consolidated subsidiaries on the date of acquisition; or

to Wachovia or any wholly-owned subsidiary.

Despite the above requirements, any Major Subsidiary Bank may be merged into or consolidated with another banking institution organized under U.S. or state law, if after giving effect to that merger or consolidation Wachovia or any wholly-owned subsidiary owns at least 80% of the voting stock of the other banking institution free and clear of any security interest and if, immediately after the merger or consolidation, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have happened and be continuing. (*Section 1007*) A Major Subsidiary Bank is defined in each indenture to mean any subsidiary which is a bank and has total assets equal to 25% or more of Wachovia s consolidated assets determined on the date of the most recent audited financial statements of these entities. At present, the Major Subsidiary Bank is Wachovia Bank, National Association.

The above covenant is not a covenant for the benefit of any series of debt securities issued before August 1, 1990, or, in the case of subordinated debt securities including the subordinated notes, issued after November 15, 1992.

Form, Exchange and Transfer

If the notes cease to be issued in global form, they will be issued:

only in fully registered form;

without interest coupons; and

unless we indicate otherwise in your pricing supplement, in denominations of $1,000 and that are multiples of $1,000.

Holders may exchange their notes for notes of smaller denominations or combined into fewer notes of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their notes at the office of the relevant trustee, or in the event definitive notes are issued and so long as the notes are listed on the Luxembourg Stock Exchange, at the offices of the paying agent. We have appointed the respective trustees to act as our agents for registering notes in the names of holders and transferring notes. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their notes, but they may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The

Table of Contents

transfer or exchange will be made only if our transfer agent is satisfied with the holder s proof of legal ownership.

If we have designated additional transfer agents for your note, they will be named in your pricing supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any notes are redeemable and we redeem less than all those notes, we may block the transfer or exchange of those notes during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any note selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any note being partially redeemed.

If a note is issued as a global note, only the depositary e.g., DTC, Euroclear and Clearstream will be entitled to transfer and exchange the note as described in this subsection, since it will be the sole holder of the note.

Payment Mechanics

Who Receives Payment?

If interest is due on a note on an interest payment date, we will pay the interest to the person or entity in whose name the note is registered at the close of business on the regular record date relating to the interest payment date. If interest is due at maturity but on a day that is not an interest payment date, we will pay the interest to the person or entity entitled to receive the principal of the note. If principal or another amount besides interest is due on a note at maturity, we will pay the amount to the holder of the note against surrender of the note at a proper place of payment (or, in the case of a global note, in accordance with the applicable policies of the depositary).

How We Will Make Payments Due in U.S. Dollars

We will follow the practice described in this subsection when paying amounts due in U.S. dollars. Payments of amounts due in other currencies will be made as described in the next subsection.

Payments on Global Notes. We will make payments on a global note in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will pay directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global note. An indirect holder s right to receive those payments will be governed by the rules and practices of the depositary and its participants, as described under Global Notes and Global Notes .

Payments on Non-Global Notes. We will make payments on a note in non-global form as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee s records as of the close of business on the regular record date. We will make all other payments by check at the paying agent described below, against surrender of the note. All payments by check will be made in next-day funds i.e., funds that become available on the day after the check is cashed.

Alternatively, if a non-global note has a face amount of at least $1,000,000 and the holder asks us to do so, we will pay any amount that becomes due on the note by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request wire payment, the holder must give the paying agent appropriate wire transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the relevant regular record date. In the case of any other payment, payment will be made only after the note is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their notes.

How We Will Make Payments Due In Other Currencies

We will follow the practice described in this subsection when paying amounts that are due in a specified currency other than U.S. dollars.

Payments on Global Notes. We will make payments on a global note in accordance with the applicable policies as in effect from time to time of the depositary, which will be DTC, Euroclear or Clearstream. Unless we specify otherwise in the applicable pricing supplement, DTC will be the depositary for all notes in global form. We understand that DTC s policies, as currently in effect, are as follows.

Unless otherwise indicated in your pricing supplement, if you are an indirect holder of global notes denominated in a specified currency other than U.S. dollars and if you elect to receive payments in that other currency, you must notify the participant through which your interest in the global note is held of your election:

- on or before the applicable regular record date, in the case of a payment of interest, or
- on or before the 16th day prior to stated maturity, or any redemption or repayment date, in the case of payment of principal or any premium.

You may elect to receive all or only a portion of any interest, principal or premium payment in a specified currency other than U.S. dollars.

Your participant must, in turn, notify DTC of your election on or before the third DTC business day after that regular record date, in the case of a payment of interest, and on or before the 12th DTC business day prior to stated maturity, or on the redemption or repayment date if your note is redeemed or repaid earlier, in the case of a payment of principal or any premium.

DTC, in turn, will notify the paying agent of your election in accordance with DTC s procedures.

If complete instructions are received by the participant and forwarded by the participant to DTC, and by DTC to the paying agent, on or before the dates noted above, the paying agent, in accordance with DTC s instructions will make the payments to you or your participant by wire transfer of immediately available funds to an account maintained by the payee with a bank located in the country issuing the specified currency or in another jurisdiction acceptable to us and the paying agent.

If the foregoing steps are not properly completed, we expect DTC to inform the paying agent that payment is to be made in U.S. dollars. In that case, we or our agent will convert the payment to U.S. dollars in the manner described below under Conversion to U.S. Dollars . We expect that we or our agent will then make the payment in U.S. dollars to DTC, and that DTC in turn will pass it along to its participants.

Indirect holders of a global note denominated in a currency other than U.S. dollars should consult their banks or brokers for information on how to request payment in the specified currency.

***Payments on Non-Global Notes**.* Except as described in the last paragraph under this heading, we will make payments on notes in non-global form in the applicable specified currency. We will make these payments by wire transfer of immediately available funds to any account that is maintained in the applicable specified currency at a bank designated by the holder and is acceptable to us and the trustee. To designate an account for wire payment, the holder must give the paying agent appropriate wire instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the regular record date. In the case of any other payment, the payment will be made only after the note is surrendered to the paying agent. Any instructions, once properly given, will remain in effect unless and until new instructions are properly given in the manner described above.

If a holder fails to give instructions as described above, we will notify the holder at the address in the trustee s records and will make the payment within five business days after the holder provides appropriate instructions. Any late payment made in these circumstances will be treated under the indenture as if made on the due date, and no interest will accrue on the late payment from the due date to the date paid.

Although a payment on a note in non global form may be due in a specified currency other than U.S. dollars, we will make the payment in U.S. dollars if the holder asks us to do so. To request U.S. dollar payment, the holder must provide appropriate written notice to the trustee at least five business days before the next due date for which payment in U.S. dollars is requested. In the case of any interest payment due on an interest payment date, the request must be made by the person or entity who is the holder on the regular record date. Any request, once properly made, will remain in effect unless and until revoked by notice properly given in the manner described above.

Book-entry and other indirect holders of a note with a specified currency other than U.S. dollars should contact their banks or brokers for information about how to receive payments in the specified currency or in U.S. dollars.

***Conversion to U.S. Dollars**.* When we are asked by a holder to make payments in U.S. dollars of an amount due in another currency, either on a global note or a non-global note as described above, the exchange rate agent described below will calculate the U.S. dollar amount the holder receives in the exchange rate agent s discretion.

A holder that requests payment in U.S. dollars will bear all associated currency exchange costs, which will be deducted from the payment.

When the Specified Currency is Not Available. If we are obligated to make any payment in a specified currency other than U.S. dollars, and the specified currency or any successor currency is not available to us due to circumstances beyond our control such as the imposition of exchange controls or a disruption in the currency markets we will be entitled to satisfy our obligation to make the payment in that specified currency by making the payment in U.S. dollars, on the basis of the exchange rate determined by the exchange rate agent described below, in its discretion.

The foregoing will apply to any note, whether in global or non-global form, and to any payment, including a payment at maturity. Any payment made under the circumstances and in a manner described above will not result in a default under any note or the relevant indenture.

***Exchange Rate Agent**.* If we issue a note in a specified currency other than U.S. dollars, we will appoint a financial institution to act as the exchange rate agent and will name the institution initially appointed when the note is originally issued in the applicable pricing supplement. We may select Wachovia Bank, National Association or another of our affiliates to perform this role. We may change the exchange rate agent from time to time after the original issue date of the note without your consent and without notifying you of the change.

Table of Contents

All determinations made by the exchange rate agent will be at its sole discretion unless we state in the applicable pricing supplement that any determination requires our approval. In the absence of manifest error, those determinations will be conclusive for all purposes and binding on you and us, without any liability on the part of the exchange rate agent.

Payment When Offices Are Closed

If any payment is due on a note on a day that is not a business day, we will make the payment on the next day that is a business day. Payments postponed to the next business day in this situation will be treated under the relevant indenture as if they were made on the original due date. Postponement of this kind will not result in a default under any note or the indenture, and no interest will accrue on the postponed amount from the original due date to the next day that is a business day. The term business day has a special meaning, which we describe above under Interest Rates Special Rate Calculation Terms .

Paying Agent

We may appoint one or more financial institutions to act as our paying agents, at whose designated offices notes in non-global entry form may be surrendered for payment at their maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. Initially, we have appointed Wachovia Bank, National Association, at its corporate trust office in New York City or its headquarters in Charlotte, North Carolina, as the paying agent. We must notify you of changes in the paying agents.

Citibank, N.A., acting through its London office (or such other agent appointed in accordance with the Senior Indenture or the Subordinated Indenture, as the case may be), will act as London paying agent and London issuing agent.

In the event definitive notes are issued as described in this prospectus and as long as the notes are listed on the Luxembourg Stock Exchange, the holders of those notes will be able to receive payments and effect transfers at the offices of Dexia Banque Internationale à Luxembourg, Luxembourg or its successor as paying agent in Luxembourg relating to the notes. Each indenture provides for the replacement of a mutilated, lost, stolen or destroyed definitive note, so long as the applicant furnishes to Wachovia and the relevant trustee the security or indemnity required by them to save each of them harmless and any evidence of ownership of the note as they may require.

Dexia Banque Internationale à Luxembourg will act as a paying agent and transfer agent in Luxembourg in relation to the notes, and as long as the notes are listed on the Luxembourg Stock Exchange, Wachovia will maintain a paying agent and transfer agent in Luxembourg and any change in the Luxembourg paying agent and transfer agent will be published in Luxembourg in accordance with the second paragraph below under Notices .

Unclaimed Payments

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the relevant trustee, any other paying agent or anyone else.

Notices

Notices to be given to holders of a global note will be given only to the depositary, in accordance with its applicable policies as in effect from time to time. Notices to be given to holders of notes not in global form will be sent by mail to the respective addresses of the holders as they appear in the relevant trustee s records, and will be deemed given when mailed.

Table of Contents

As long as the notes are listed on the Luxembourg Stock Exchange and its rules require, we will also give notices to holders by publication in a daily newspaper of general circulation in Luxembourg. We expect that newspaper to be, but it need not be, the *Luxemburger Wort*. If publication in Luxembourg is not practical, we will make the publication elsewhere in Western Europe. By daily newspaper we mean a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. You will be presumed to have received these notices on the date we first publish them. If we are unable to give notice as described in this paragraph because the publication of any newspaper is suspended or it is otherwise impracticable for us to publish the notice, then we or the relevant trustee, acting on our instructions, will give holders notice in another form. That alternate form of notice will be sufficient notice to you.

Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive notices.

Trustees

Either or both of the trustees may resign or be removed with respect to one or more series of notes and a successor trustee may be appointed to act with respect to that series. (*Section 610*) In the event that two or more persons are acting as trustee with respect to different series of notes, each such trustee shall be a trustee of a trust under the relevant indenture separate and apart from the trust administered by any other such trustee (*Section 611*), and any action to be taken by the trustee may then be taken by each such trustee with respect to, and only with respect to, the one or more series of notes for which it is trustee.

In the normal course of business, Wachovia and its subsidiaries conduct banking transactions with the trustees and their affiliates, and the trustees and their affiliates conduct banking transactions with Wachovia and its subsidiaries.

Title

Wachovia, the trustees and any of their agents may treat the registered owner of any note as the absolute owner of that security, whether or not that note is overdue and despite any notice to the contrary, for any purpose. See Global Notes .

Governing Law

The indentures and the notes will be governed by New York law.

Table of Contents

GLOBAL NOTES

We will issue each note in book-entry form only. Each note issued in book-entry form will be represented by a global note that we deposit with and register in the name of one or more financial institutions or clearing systems, or their nominees, which we select. A financial institution or clearing system that we select for this purpose is called the depositary for that note. A note will usually have only one depositary but it may have more.

Each series of notes will have one or more of the following as the depositaries.

- The Depository Trust Company, New York, New York, which is known as DTC ;
- JPMorgan Chase Bank, N.A. holding the notes on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear system, which is known as Euroclear ;
- Citibank, N.A. holding the notes on behalf of Clearstream Banking, société anonyme, Luxembourg, which is known as Clearstream ; and
- any other clearing system or financial institution named in the applicable pricing supplement.

The depositaries named above may also be participants in one another s system. Thus, for example, if DTC is the depositary for a global note, investors may hold beneficial interests in that note through Euroclear or Clearstream, as DTC participants. The depositary or depositaries for your notes will be named in your pricing supplement; if none is named, the depositary will be DTC.

A global note may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under Holder s Option to Obtain a Non-Global Note; Special Situations When a Global Note Will Be Terminated . As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all notes represented by a global note, and investors will be permitted to own only indirect interests in a global note. Indirect interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that does. Thus, an investor whose note is represented by a global note will not be a holder of the note, but only an indirect owner of an interest in the global note.

If the pricing supplement for a particular note indicates that the note will be issued in global form only, then the note will be represented by a global note at all times unless and until the global note is terminated. We describe the situations in which this can occur below under Holder s Option to Obtain a Non-Global Note; Special Situations When a Global Note Will Be Terminated . If termination occurs, we may issue the notes through another book-entry clearing system or decide that the notes may no longer be held through any book-entry clearing system.

DTC has informed Wachovia that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that DTC participants deposit with DTC. DTC also facilitates the settlement among DTC participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC participants accounts, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations, and may include other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and DTC participants are on file with the Commission.

Table of Contents

Special Considerations for Global Notes

As an indirect owner, an investor s rights relating to a global note will be governed by the account rules of the depositary and those of the investor s financial institution or other intermediary through which it holds its interest (e.g., Euroclear or Clearstream, if DTC is the depositary), as well as general laws relating to note transfers. We do not recognize this type of investor or any intermediary as a holder of notes and instead deal only with the depositary that holds the global note.

If notes are issued only in the form of a global note, an investor should be aware of the following:

An investor cannot cause the notes to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the notes, except in the special situations we describe below;

An investor will be an indirect holder and must look to his or her own bank or broker for payments on the notes and protection of his or her legal rights relating to the note, as we describe above under Description of the Notes We May Offer Legal Ownership ;

An investor may not be able to sell interests in the notes to some insurance companies and other institutions that are required by law to own their notes in non-book-entry form;

An investor may not be able to pledge his or her interest in a global note in circumstances where certificates representing the notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

The depositary s policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor s interest in a global note, and those policies may change from time to time. We and the relevant trustee will have no responsibility for any aspect of the depositary s policies, actions or records or ownership interests in a global note. We and the trustees also do not supervise the depositary in any way;

The depositary will require that those who purchase and sell interests in a global note within its book-entry system use immediately available funds and your broker or bank may require you to do so as well; and

Financial institutions that participate in the depositary s book-entry system and through which an investor holds its interest in the global notes, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the notes, and those policies may change from time to time. For example, if you hold an interest in a global note through Euroclear or Clearstream, when DTC is the depositary, Euroclear or Clearstream, as applicable, will require those who purchase and sell interests in that note through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

Holder s Option to Obtain a Non-Global Note; Special Situations When a Global Note Will Be Terminated

If we issue any series of notes in book-entry form but we choose to give the beneficial owners of that series the right to obtain non-global notes, any beneficial owner entitled to obtain non-global notes may do so by following the applicable procedures of the depositary for that series and that owner s bank, broker or other financial institution through which that owner holds its beneficial interest in the notes. If you are entitled to request a non-global certificate and wish to do so, you will need to allow sufficient lead time to enable us or our agent to prepare the requested certificate.

Table of Contents

In addition, in a few special situations described below, a global note will be terminated and interests in it will be exchanged for certificates in non-global form representing the notes it represented. After that exchange, the choice of whether to hold the notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global note transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors above under Description of the Notes We May Offer Legal Ownership .

Unless otherwise mentioned in the relevant pricing supplement, the special situations for termination of a global note are as follows:

- if the depositary notifies Wachovia that it is unwilling, unable or no longer qualified to continue as depositary for that global note;
- if Wachovia executes and delivers to the relevant trustee an order complying with the requirements of the relevant indenture that this global note shall be so exchangeable; or
- if there has occurred and is continuing a default in the payment of any amount due in respect of the notes or an event of default or an event that, with the giving of notice or lapse of time, or both, would constitute an event of default with respect to these notes.

If a global note is terminated, only the depositary, and not we or the relevant trustee, is responsible for deciding the names of the institutions in whose names the notes represented by the global note will be registered and, therefore, who will be the holders of those notes.

Considerations Relating to Clearstream and Euroclear

Clearstream and Euroclear are securities clearance systems in Europe. Clearstream and Euroclear have informed Wachovia that Clearstream and Euroclear each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Clearstream and Euroclear provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream and Euroclear also deal with domestic securities markets in several countries through established depositary and custodial relationships. Clearstream and Euroclear have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Clearstream and Euroclear customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream and Euroclear is available to other institutions which clear through or maintain a custodial relationship with an account holder of either system.

Euroclear and Clearstream may be depositaries for a global note. In addition, if DTC is the depositary for a global note, Euroclear and Clearstream may hold interests in the global note as participants in DTC.

As long as any global note is held by Euroclear or Clearstream, as depositary, you may hold an interest in the global note only through an organization that participates, directly or indirectly, in Euroclear or Clearstream. If Euroclear or Clearstream is the depositary for a global note and there is no depositary in the United States, you will not be able to hold interests in that global note through any securities clearance system in the United States.

Payments, deliveries, transfers, exchanges, notices and other matters relating to the notes made through Euroclear or Clearstream must comply with the rules and procedures of those systems. Those systems could change their rules and procedures at any time. We have no control over those systems or their participants and we take no responsibility for their activities. Transactions between participants in Euroclear or Clearstream, on one hand, and participants in DTC, on the other hand, when DTC is the depositary, would also be subject to DTC s rules and procedures.

Table of Contents

Special Timing Considerations for Transactions in Euroclear and Clearstream

Investors will be able to make and receive through Euroclear and Clearstream payments, deliveries, transfers, exchanges, notices and other transactions involving any notes held through those systems only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, U.S. investors who hold their interests in the notes through these systems and wish to transfer their interests, or to receive or make a payment or delivery or exercise any other right with respect to their interests, on a particular day may find that the transaction will not be effected until the next business day in Luxembourg or Brussels, as applicable. Thus, investors who wish to exercise rights that expire on a particular day may need to act before the expiration date. In addition, investors who hold their interests through both DTC and Euroclear or Clearstream may need to make special arrangements to finance any purchases or sales of their interest between the U.S. and European clearing systems, and those transactions may settle later than would be the case for transactions within one clearing system.

Table of Contents

UNITED STATES TAXATION

This section describes the material United States federal income tax consequences of owning the notes we are offering. It is the opinion of Sullivan & Cromwell LLP, counsel to Wachovia. It applies to you only if you hold your notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns notes that are a hedge or that are hedged against interest rate or currency risks,
- a person that owns notes as part of a straddle or conversion transaction for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with notes that are due to mature 30 years or less from the date on which they are issued. The United States federal income tax consequences of owning notes that are due to mature more than 30 years from their date of issue will be discussed in an applicable pricing supplement. This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

our 2010 Credit Facility, which limit our involvement in such projects.

Table of Contents

The following table sets forth the amount of our intended investment and the amounts invested as of December 31, 2009 in each ground-up development project:

Development Project	Invested as of December 31, 2009
Development Properties:	
White Clay Point(1)	$ 43.5 million
Springhills(2)	33.4 million
Pavilion at Market East(3)	0.7 million
	$ 77.6 million

(1) Amount invested as of December 31, 2009 does not reflect an $11.8 million impairment charge that we recorded in December 2008. See the notes to our consolidated financial statements for further discussion of this charge.

(2) Amount invested as of December 31, 2009 does not reflect an $11.5 million impairment charge that we recorded in 2009. See the notes to our consolidated financial statements for further discussion of this charge.

(3) The property is unconsolidated. The amount shown represents our share.

In connection with our current redevelopment and ground-up development projects, we have made contractual and other commitments on these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of December 31, 2009, the unaccrued remainder to be paid against these contractual and other commitments was $2.3 million, which is expected to be financed through our 2010 Credit Facility or through various other capital sources. The projects on which these commitments have been made have total expected remaining costs of $40.4 million.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet items other than the partnerships described in note 3 to the consolidated financial statements and in the Overview section above.

RELATED PARTY TRANSACTIONS

General

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services was $0.9 million, $1.1 million and $0.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, $0.2 million was due from the property-owning partnerships to PRI.

We lease our principal executive offices from Bellevue Associates (the Landlord), an entity in which certain of our officers/trustees have an interest. Total rent expense under this lease was $1.6 million for each of the years ended December 31, 2009, 2008, and 2007. Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. We have the option to renew the lease for up to two additional five-year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, we have the right on one occasion at any time during the seventh lease year (2011) to terminate the office lease upon the satisfaction of certain conditions. Effective June 1, 2004, our base rent was $1.4 million per year during the first five years of the office lease and is $1.5 million per year during the second five years.

We use an airplane in which Ronald Rubin owns a fractional interest. We did not incur any expenses in 2009 for this service. We paid $174,000 and $35,000 in the years ended December 31, 2008 and 2007, respectively, for flight time used by employees exclusively for Company-related business.

As of December 31, 2009, nine of our officers had employment agreements with terms of one year that renew automatically for additional one-year terms. Their 2008 employment agreements provided for aggregate base compensation for the year ended December 31, 2009 of $3.4 million, subject to increases as approved by our Board compensation committee in future years, as well as additional incentive compensation.

Tax Protection Agreements

We have agreed to provide tax protection related to our acquisition of Cumberland Mall Associates in 2005 and New Castle Associates in 2003 and 2004 to the prior owners of Cumberland Mall Associates and New Castle Associates, respectively, for a period of eight years following the respective closings. Ronald Rubin and George F. Rubin are beneficiaries of these tax protection agreements.

Bala Cynwyd Associates, L.P.

On January 22, 2008, PREIT, PREIT Associates, L.P. and another subsidiary of PREIT entered into a Contribution Agreement with Bala Cynwyd Associates, L.P. (BCA), City Line Associates (CLA), Ronald Rubin, George F. Rubin, Joseph F. Coradino, and two other individuals to acquire all of the partnership interests in BCA. BCA had also entered into a tax deferred exchange agreement with the owners of One Cherry Hill Plaza, an office building located within the boundaries of our Cherry Hill Mall (the Office Building), to acquire title to the Office Building in exchange for an office building located in Bala Cynwyd, Pennsylvania owned by BCA.

Ronald Rubin, George F. Rubin, Joseph F. Coradino and two other individuals owned 100% of CLA, which in turn directly or indirectly owned 100% of BCA immediately prior to the initial closing. Each of Ronald Rubin and George F. Rubin owned 40.53% of the partnership interests in CLA, and Joseph F. Coradino owned 3.16% of the partnership interests. At the initial closing under the Contribution Agreement in 2008 and in exchange for a 0.1% general partner interest and 49.8% limited partner interest in BCA, we made a capital contribution to BCA in an approximate amount of $3.93 million.

In June 2009, a second closing occurred pursuant to a put/call arrangement, at which time we acquired an additional 49.9% of the limited partner interest in BCA for approximately $199,000 in cash and 140,745 units of Class A limited partnership interest (OP Units) in PREIT Associates, L.P. A third closing is expected to occur pursuant to a put/call arrangement approximately one year after the second closing, at which time the remaining interest in BCA will be acquired by us in exchange for approximately $1,000 in cash and 564 OP Units. None of Ronald Rubin, George Rubin or Joseph Coradino received any consideration from us in connection with the first closing. At the second closing, Ronald Rubin received 60,208 OP Units, George F. Rubin received 60,208 OP Units, and Joseph F. Coradino received 4,691 OP Units.

The acquisition of the Office Building was financed in part by a mortgage loan in the principal amount of $8.0 million.

In accordance with our related party transactions policy, a special committee consisting exclusively of independent members of our Board of Trustees considered and approved the terms of the transaction. The approval was subject to final approval of our Board of Trustees, and the disinterested members of our Board of Trustees approved the transaction.

Crown

In connection with the merger (the Merger) with Crown American Realty Trust (Crown) in 2003, we entered into a tax protection agreement with Mark E. Pasquerilla (one of our trustees) and entities affiliated with Mr. Pasquerilla (the Pasquerilla Group). Under this tax protection agreement, we agreed not to dispose of certain protected properties acquired in the Merger in a taxable transaction until November 20, 2011 or, if earlier, until the Pasquerilla Group collectively owns less than 25% of the aggregate of the shares and OP Units that they acquired in the Merger. If we were to sell any of the protected properties during the first five years of the protection period, we would have owed the Pasquerilla Group an amount equal to the sum of the hypothetical tax owed by the Pasquerilla Group, plus an amount intended to make the Pasquerilla Group whole for taxes that may be due upon receipt of such payments. From the end of the first five years through the end of the tax protection period, the payments were intended to compensate the affected parties for interest expense incurred on amounts borrowed to pay the taxes incurred on the sale. We paid $2,000 and $8,000 to the Pasquerilla Group in 2008 and 2007 pursuant to this agreement, respectively. As of December 31, 2009, the Pasquerilla Group collectively owns less than 25% of the aggregate of the shares and OP Units that they acquired in the Merger.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies are those that require the application of management s most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including the Company s past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2009, 2008 and 2007, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. This summary should be read in conjunction with the more complete discussion of our accounting policies included in note 1 to our consolidated financial statements.

Our management makes complex or subjective assumptions and judgments with respect to applying its critical accounting policies. In making these judgments and assumptions, management considers, among other factors:

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

Revenue Recognition

We derive over 95% of our revenue from tenant rent and other tenant related activities. Tenant rent includes base rent, percentage rent, expense reimbursements (such as common area maintenance, real estate taxes and utilities), amortization of above- and below-market intangibles and straight-line rent. We record base rent on a straight-line basis, which means that the monthly base rent income according to the terms of our leases with tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. When tenants vacate prior to the end of their lease, we accelerate amortization of any related unamortized straight-line rent balances, and unamortized above-market and below-market intangible balances are amortized as a decrease or increase to real estate revenue, respectively.

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

In addition to base rent, certain lease agreements contain provisions that require tenants to reimburse a fixed or pro rata share of certain common area maintenance costs and real estate taxes. Tenants generally make expense reimbursement payments monthly based on a budgeted amount determined at the beginning of the year. During the year, our income increases or decreases based on actual expense levels and changes in other factors that influence

the reimbursement amounts, such as occupancy levels. Subsequent to the end of the year, we prepare a reconciliation of the actual amounts due from tenants. The difference between the actual amount due and the amounts paid by the tenant throughout the year is billed or credited to the tenant, depending on whether the tenant paid too little or too much during the year.

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

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

We also generate revenue by providing management services to third parties, including property management, brokerage, leasing and development. Management fees generally are a percentage of managed property revenue or cash receipts. Leasing fees are earned upon the consummation of new leases. Development fees are earned over the time period of the development activity and are recognized on the percentage of completion method. These activities collectively are included in Interest and other income in the consolidated statements of operations.

Fair Value

On January 1, 2008, we adopted new accounting requirements that define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. These new accounting requirements apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

These new accounting requirements emphasize that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy was established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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

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

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

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

Derivatives

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

57

Table of Contents

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements. Although we have determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2009, we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and we have determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, we have determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Financial Instruments

Carrying amounts reported on the balance sheet for cash and cash equivalents, tenant and other receivables, accrued expenses, other liabilities and the 2003 Credit Facility approximate fair value due to the short-term nature of these instruments. The majority of our variable-rate debt is subject to interest rate swaps that have effectively fixed the interest rates on the underlying debt has an estimated fair value that is approximately the same as the recorded amounts in the balance sheets. The estimated fair value for fixed-rate debt, which is calculated for disclosure purposes, is based on the borrowing rates available to us for fixed-rate mortgage loans and corporate notes payable with similar terms and maturities

Asset Impairment

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

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

Our assessment of the recoverability of certain lease related costs must be made when we have a reason to believe that the tenant might not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs.

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

Real Estate

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

Table of Contents

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

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

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

Gains from sales of real estate properties and interests in partnerships generally are recognized using the full accrual method provided that various criteria are met relating to the terms of sale and any subsequent involvement by us with the properties sold.

Real Estate Acquisitions

We account for our property acquisitions by allocating the purchase price of a property to the property s assets based on our estimates of their fair value.

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

Intangible Assets

The determination of the fair value of intangible assets requires significant estimates by management and considers many factors, including our expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in such assumptions can have a significant impact on the magnitude of the intangible assets that we record.

A portion of the purchase price of a property is allocated to intangible assets. Our methodology for this allocation includes estimating an as-if vacant fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the as-if vacant fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

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

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

We allocate purchase price to customer relationship intangibles based on our assessment of the value of such relationships.

Table of Contents

Goodwill

We conduct an annual review of our goodwill balances for impairment to determine whether an adjustment to the carrying value of goodwill is required. We determined the fair value of our properties and the goodwill that is associated with the properties by applying a capitalization rate to our estimate of projected income at those properties. We also consider factors such as property sales performance, market position and current and future operating results.

Assets Held for Sale and Discontinued Operations

The determination to classify an asset as held for sale requires significant estimates by us about the property and the expected market for the property, which are based on factors including recent sales of comparable properties, recent expressions of interest in the property, financial metrics of the property and the condition of the property. We must also determine if it will be possible under those market conditions to sell the property for an acceptable price within one year. When assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs of such assets. We generally consider operating properties to be held for sale when they meet the criteria, which include factors such as whether the sale transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable within one year. If, in management s opinion, the net sales price of the asset that has been identified as held for sale is less than the net book value of the asset, the asset is written down to fair value less the cost to sell. Assets and liabilities related to assets classified as held for sale are presented separately in the consolidated balance sheet.

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

Capitalization of Costs

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

We capitalize payments made to obtain options to acquire real property. Other related costs that are incurred before acquisition that are expected to have ongoing value to the project are capitalized if the acquisition of the property or of an option to acquire the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is probable that the property will not be acquired.

We capitalize salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases with third-party tenants.

Tenant Receivables

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

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2009, 2008 and 2007

Overview

Our net loss increased by $73.7 million to a net loss of $90.1 million for the year ended December 31, 2009 from net loss of $16.4 million for the year ended December 31, 2008. The increase in the loss was affected by challenging conditions in the economy, the impairment of assets, the effects of ongoing redevelopment initiatives, tenant bankruptcies, increased depreciation and amortization and interest expense as a result of development and redevelopment assets having been placed in service, increased interest expense as a result of a higher aggregate debt balance and increased property operating expenses compared to the year ended December 31, 2008. These factors were offset by gains on the extinguishment of debt in connection with repurchases of a portion of our Exchangeable Notes.

Our net income decreased by $39.5 million to a net loss of $16.4 million for the year ended December 31, 2008 from net income of $23.1 million for the year ended December 31, 2007. The decrease was affected by challenging conditions in the economy, the impairment of assets, tenant bankruptcies, the effects of ongoing redevelopment initiatives, increased depreciation and amortization as a result of development and redevelopment assets having been placed in service, increased interest expense as a result of a higher aggregate debt balance and increased property operating expenses compared to the year ended December 31, 2007 and a decrease in gains on the sales of discontinued operations. These decreases were partially offset by a gain on the extinguishment of debt in connection with a repurchase of a portion of our Exchangeable Notes.

The table below sets forth certain occupancy statistics for properties that we consolidate as of December 31, 2009, 2008, and 2007:

	Consolidated Properties Occupancy as of December 31,		
	2009	2008	2007
Retail portfolio weighted average:			
Total including anchors	89.7%	90.3%	90.5%
Excluding anchors	84.7%	87.3%	88.1%
Enclosed malls weighted average:			
Total including anchors	89.4%	89.6%	90.1%
Excluding anchors	84.2%	86.5%	87.7%
Strip and power center weighted average:	93.1%	99.2%	96.6%

Table of Contents

The following table sets forth certain occupancy statistics for properties owned by partnerships in which we own a 50% interest as of December 31, 2009, 2008 and 2007:

	Partnership Properties Occupancy as of December 31, 2009	2008	2007
Retail portfolio weighted average:			
Total including anchors	90.7%	94.3%	95.7%
Excluding anchors	87.6%	91.9%	93.9%
Enclosed malls weighted average:			
Total including anchors	92.0%	91.8%	95.2%
Excluding anchors	89.9%	89.6%	93.8%
Strip and power center weighted average:	89.9%	95.6%	95.9%

The following information sets forth our results of operations for the years ended December 31, 2009, 2008 and 2007:

(in thousands of dollars)	Year Ended December 31, 2009	% Change 2008 to 2009	Year Ended December 31, 2008	% Change 2007 to 2008	Year Ended December 31, 2007
Results of operations:					
Revenue	$ 463,088	(1%)	$ 467,993	2%	$ 460,590
Operating expenses	(193,576)	4%	(186,520)	4%	(179,010)
General and administrative expenses	(37,558)	(7%)	(40,324)	(3%)	(41,415)
Income taxes and other	(169)	(29%)	(237)	(43%)	(413)
Impairment of assets and abandoned project costs	(75,012)	160%	(28,889)	1,787%	(1,531)
Interest expense, net	(133,460)	16%	(115,013)	15%	(100,188)
Depreciation and amortization	(166,570)	11%	(150,041)	15%	(130,632)
Equity in income of partnerships	10,102	43%	7,053	52%	4,637
Gain on extinguishment of debt	27,047		27,074		
Gains on sales of real estate	923				579
Gains on sales of non-operating real estate	3,388				1,731
Income from discontinued operations	11,706	359%	2,549	(71%)	8,772
Net (loss) income	$ (90,091)	451%	$ (16,355)	(171%)	$ 23,120

The amounts reflected as income from continuing operations in the preceding table reflect our consolidated properties, with the exception of properties that are classified as discontinued operations. Our unconsolidated partnerships are presented under the equity method of accounting in the line item Equity in income of partnerships.

Real Estate Revenue

Real estate revenue decreased by $3.4 million, or 1%, in 2009 as compared to 2008. Real estate revenue in 2009 was significantly affected by tenant bankruptcies and store closings, resulting in lower occupancy and expense reimbursements and higher bad debt expense compared to 2008. Real estate revenue from properties that were owned by us for the entire period from January 1, 2008 to December 31, 2009 (2009 Same Store Properties) decreased by $7.2 million in 2009, primarily due to decreases of $1.9 million in lease termination revenue, $1.8 million in percentage rent, $1.7 million in other revenue, $1.3 million in expense reimbursements and $0.5 million in base rent, which is comprised of minimum rent, straight line rent and rent from tenants that pay a percentage of sales in lieu of minimum rent. These changes in real estate revenue are explained below in further detail. Real estate revenue increased $3.8 million from one property under development during 2008 that was placed in service in 2009.

Lease termination revenue from 2009 Same Store Properties decreased by $1.9 million in 2009, primarily due to amounts received from two tenants during 2008 that did not recur in 2009. Percentage rent from 2009 Same Store Properties decreased by $1.8 million due in part to a decrease in tenant sales from $333 per square foot in 2008 to $325 per square foot in 2009. This decrease was also partially due to a trend in certain more recent leases that have higher thresholds at which percentage rent begins. Other revenue from 2009 Same Store Properties decreased by $1.7 million in 2009, primarily due to a $1.1 million decrease in marketing revenue, a $0.2 million decrease in corporate sponsorship revenue and a $0.1 million decrease in gift card revenue. The decrease in marketing revenue was offset by a corresponding $1.1 million decrease in marketing expense. Marketing revenue is generally recognized in tandem with marketing expense.

Expense reimbursements from 2009 Same Store Properties decreased by $1.3 million in 2009 as compared to 2008. At many of our malls, we have continued to recover a lower proportion of common area maintenance and real estate tax expenses. In addition to being affected by store closings, our properties are experiencing a trend towards more gross leases (leases that provide that tenants pay a higher base rent amount in lieu of contributing toward common area maintenance costs and real estate taxes), as well as more leases that provide for the rent amount to be determined on the basis of a percentage of sales in lieu of minimum rent or any contribution toward common area maintenance or real estate tax expenses. We are also experiencing rental concessions made to tenants affected by our redevelopment activities and to tenants experiencing financial difficulties, that resulted in lower recoveries.

Base rent from 2009 Same Store Properties decreased by $0.5 million in 2009 as compared to 2008. Base rent decreased by $5.5 million due to store closings and liquidations associated with tenant bankruptcy filings during 2009 and 2008. Partially offsetting these decreases, base rent at Cherry Hill Mall, Voorhees Town Center and Plymouth Meeting Mall, three projects in the current redevelopment program, increased by $2.4 million, $1.6 million and $1.1 million, respectively, due to increased occupancy from newly opened tenants. Partially offsetting the increases at Voorhees Town Center and Plymouth Meeting Mall were lease inducement and straight line rent receivable write-offs of $0.6 million and $0.2 million, respectively, associated with tenant delinquencies, which reduced base rent.

Interest and other income decreased by $1.5 million, or 33%, in 2009 as compared to 2008 due to lower interest rates on excess cash investments and non-recurring development fees and leasing commissions recorded in 2008.

We believe that the current downward trend in the overall economy and the recent disruptions in the financial markets have reduced consumer confidence in the economy and negatively affected employment and consumer spending on retail goods, and have consequently decreased the demand for retail space and the revenue generated by our properties. The weaker operating performance of retailers has resulted in delays or deferred decisions regarding the opening of new retail stores and renewals of existing leases at our properties and has affected the ability of our current tenants to meet their obligations to us, which has and is anticipated to continue to adversely affect our ability to generate real estate revenue during the duration of the current downturn and disruptions.

Real estate revenue increased by $9.9 million, or 2%, in 2008 as compared to 2007, including an increase of $4.1 million from properties that were under development during 2007 that were placed in service in 2008 and an increase of $1.5 million from One Cherry Hill Plaza (acquired in February 2008). Real estate revenue from properties that were owned by us for the entire period from January 1, 2007 to December 31, 2008 (2008 Same Store Properties) increased by $4.3 million in 2008, primarily due to increases of $2.7 million in expense reimbursements, $2.5 million in lease termination revenue and $2.1 million in base rent, partially offset by decreases of $1.9 million in percentage rent and $1.1 million in other revenue.

Expense reimbursements from 2008 Same Store Properties increased by $2.7 million in 2008 as compared to 2007 due in large part to higher reimbursable expenses, as discussed below under Operating Expenses. Lease termination revenue from 2008 Same Store Properties increased by $2.5 million, primarily due to amounts received from two tenants during 2008.

Base rent from 2008 Same Store Properties increased by $2.1 million in 2008 as compared to 2007 primarily due to an increase in rental rates and increased occupancy at redevelopment projects, including a $1.0 million increase at Voorhees Town Center, a $0.9 million increase at Plymouth Meeting Mall and a $0.7 million increase at Cherry Hill Mall. Additionally, base rent in 2008 increased by $0.9 million at redevelopment projects completed during 2008 and 2007 due to an increase in rental rates and increased occupancy. These increases were partially offset by a $1.5 million decrease in base rent at our remaining properties due to decreases of $1.0 million in specialty leasing revenue, $0.9 million in straight line rent and $0.5 million in above/below market rent amortization, partially offset by increases of $0.5 million in minimum rent and $0.4 million in percentage of sales rent in lieu of minimum rent. Percentage rent decreased by $1.9 million in 2008 as compared to 2007 due in part to a decrease in tenant sales from $349 per square foot in 2007 to $333 in 2008. Percentage rent also decreased in connection with a trend among certain tenants to have higher thresholds at which percentage rent begins. Other revenue decreased by $1.1 million in 2008 compared to 2007, including a $0.4 million decrease in marketing revenue, a $0.3 million decrease in gift card revenue and a $0.3 million decrease in ancillary revenue. These revenue decreases were offset by corresponding decreases of $0.5 million in marketing expense, $0.3 million in gift card expense and $0.3 million in ancillary expense.

Interest and other income decreased by $2.5 million, or 36%, in 2008 as compared to 2007 due to a $1.5 million one time payment received in 2007 that did not recur in 2008 in connection with Swansea Mall in Swansea, Massachusetts, a mall that we formerly managed.

Operating Expenses

Operating expenses increased by $7.1 million, or 4%, in 2009 as compared to 2008. Operating expenses from 2009 Same Store Properties increased by $6.0 million in 2009, primarily due to a $3.4 million increase in real estate tax expense and a $3.4 million increase in common area maintenance expense. These increases were partially offset by a $0.8 million decrease in non-common area utility expense. Operating expenses increased $1.0 million from two properties under development during 2008 that were placed in service in 2009, and $0.1 million from a property we acquired in February 2008.

Real estate tax expense increased by $3.4 million in 2009, primarily due to higher tax rates and increased property assessments at some of our properties. Common area maintenance expenses increased by $3.4 million, due primarily to increases of $1.5 million in snow removal, $1.4 million in repairs and maintenance and $0.7 million in loss prevention expense. Snow removal expense amounts at our properties located in Pennsylvania and New Jersey increased as a result of a significant snowstorm that affected the Mid-Atlantic states in mid-December 2009. Total snow removal costs associated with this storm were approximately $1.6 million. Repairs and maintenance expense and loss prevention expense increased due primarily to stipulated annual contractual increases. Non-common area utility expense decreased by $0.8 million in 2009, including a $0.5 million decrease at our four properties located in New Jersey due to a combination of lower utility rates and lower consumption resulting from newly installed equipment at Voorhees Town Center and Cherry Hill Mall.

Other operating expenses were affected by a $1.1 million decrease in marketing expense, a $0.3 million decrease in legal fee expense, a $0.2 million decrease in non-common area maintenance expense, a $0.2 million decrease in ground rent expense and a $0.1 million decrease in gift card expense, offset by a $1.9 million increase in bad debt expense. The increase in bad debt expense was affected by $0.9 million associated with 15 tenant bankruptcy filings during 2009.

Operating expenses increased by $7.5 million, or 4%, in 2008 as compared to 2007. Operating expenses from 2008 Same Store Properties increased by $5.9 million in 2008, primarily due to a $2.6 million increase in common area maintenance expense, a $2.0 million increase in real estate tax expense and a $1.5 million increase in other property operating expenses. These increases were partially offset by a $0.2 million decrease in non-common area utility expense. Operating expenses also included $0.6 million from properties that were under development during 2007 that were placed in service in 2008 and $1.0 million from One Cherry Hill Plaza (acquired in February 2008).

Common area maintenance expenses from 2008 Same Store Properties increased by $2.6 million in 2008 as compared to 2007, primarily due to increases of $2.3 million in repairs and maintenance expense, $0.6 million in loss prevention expense, $0.4 million in common area utility expense and $0.4 million in on-site management expense, partially offset by a $1.1 million decrease in snow removal expense. Repairs and maintenance expense and loss prevention expense increased in 2008 primarily due to stipulated annual contractual cost increases. Snowfall amounts at our properties decreased in 2008 as compared to 2007, particularly at our properties located in Pennsylvania and New Jersey. Real estate tax expense increased by $2.0 million in 2008 as compared to 2007, primarily due to higher tax rates in the jurisdictions where properties are located. Other property operating expenses from 2008 Same Store Properties increased by $1.5 million in 2008 as compared to 2007, including a $2.1 million increase in bad debt expense, a $0.4 million increase in non-common area maintenance expense and a $0.2 million increase in vacant store utility expense. These increases were partially offset by decreases of $0.5 million in marketing expense, $0.3 million in gift card expense and $0.3 million in ancillary expense. The increase in bad debt expense was affected by a $1.3 million increase in 2008 associated with tenant bankruptcy filings.

General and Administrative Expenses

General and administrative expenses decreased by $2.8 million, or 7%, in 2009 as compared to 2008. Other general and administrative expenses decreased by $1.9 million, primarily due to lower travel costs, professional fees, convention expenses and other miscellaneous expenses. This overall decrease was also due in part to a $0.4 million decrease in compensation costs, as a result of a reduction in headcount and lower incentive compensation costs.

General and administrative expenses decreased by $1.1 million, or 3%, in 2008 as compared to 2007. The decrease was due to a $1.1 million decrease in net compensation expense related to decreased incentive compensation.

Impairment of Assets and Abandoned Project Costs

During the year ended December 31, 2009, we recorded asset impairments totaling $74.3 million, consisting of $62.7 million related to the investment in real estate at Orlando Fashion Square in Orlando, Florida, $11.5 million related to the Springhills ground-up development project in Gainesville, Florida and $0.1 million related to the sale of an outparcel and related land improvements containing an operating restaurant at Monroe Marketplace in Selinsgrove, Pennsylvania. See note 2 of the notes to consolidated financial statements. We also recorded $0.8 million of abandoned development projects expense in 2009.

During 2009, Orlando Fashion Square experienced significant decreases in non-anchor occupancy and net operating income as a result of unfavorable economic conditions in the Orlando market combined with negative trends in the retail sector. The occupancy declines resulted from store closings from bankrupt and underperforming tenants. Net operating income at this property was also impacted by an increase in the number of tenants paying a percentage of their sales in lieu of minimum rent combined with declining tenant sales. As a result of these conditions, in connection with the preparation of our 2010 business plan and budgets, management determined that its estimate of future cash flows, net of estimated capital expenditures, to be generated by the property were less than the carrying value of the property. As a result, we determined that the property was impaired and a write down of $62.7 million to the property s estimated fair value of $40.2 million was necessary.

Springhills is a mixed use ground-up development project located in Gainesville, Florida. During the fourth quarter of 2009, in connection with our 2010 business planning process, which included a strategic review of our future development projects, management determined that the development plans for Springhills were uncertain. Consequently, we recorded an impairment loss of $11.5 million, to write down the carrying amount of the project to the estimated fair value of $22.0 million.

During the year ended December 31, 2008, we recorded asset impairments totaling $27.6 million, consisting of $11.8 million related to the White Clay Point ground-up development project, $7.0 million related to the Sunrise Plaza power center project, $4.6 million related to goodwill, $3.0 million related to our investment in and receivables from Valley View Downs, $0.9 million related to a proposed commercial project in West Chester, Pennsylvania and $0.2 million related to an undeveloped parcel adjacent to Viewmont Mall classified as land held for development. See note 2 of the notes to consolidated financial statements. We also recorded $1.3 million of abandoned development projects expense in 2008.

Interest Expense

Interest expense increased by $18.4 million, or 16%, in 2009 as compared to 2008. This increase was primarily attributable to assets placed in service with an aggregate cost basis of $286.7 million in 2009. Interest on these assets was capitalized during construction periods on our development and redevelopment projects, and was expensed during periods after the improvements were placed in service. This increase resulted in part from a higher aggregate debt balance. Interest expense in 2008 was reduced by $2.0 million as a result of a gain from hedging activities.

Interest expense increased $14.8 million, or 15%, in 2008 as compared to 2007. The increase was attributable to a $12.6 million increase related to new mortgage financings in 2008, a $2.7 million increase related to the Term Loan financing completed in September 2008 and a $5.7 million increase in interest arising from the revolving 2003 Credit Facility and our Exchangeable Notes (due to larger amounts outstanding in the aggregate in 2008 as compared to 2007). These increases were partially offset by a decrease in mortgage loan interest of $4.2 million related to the repayment of the 15 property real estate mortgage investment conduit (REMIC), a $2.0 million gain from hedging activities and the repayment of the mortgage loan on Crossroads Mall in 2008 and a $0.3 million decrease in interest paid on mortgage loans outstanding during 2008 due to principal amortization, as well as the effects of lower average interest rates.

Depreciation and Amortization

Depreciation and amortization expense increased by $16.5 million, or 11%, in 2009 as compared to 2008. Depreciation and amortization expense from 2009 Same Store Properties increased by $15.4 million, primarily due to a higher asset base resulting from capital improvements at our properties, particularly at properties where we have recently completed redevelopments and that are now placed in service. We placed assets with an aggregate basis of $286.0 million in service in 2009. Depreciation and amortization expense increased $1.4 million from one property under development during 2008 that is now placed in service and decreased $0.3 million from One Cherry Hill Plaza (acquired February 2008).

Depreciation and amortization expense increased by $19.4 million, or 15%, in 2008 as compared to 2007. Depreciation and amortization expense from 2008 Same Store Properties increased by $16.3 million, primarily due to a higher asset base resulting from capital improvements at our properties, particularly at redevelopment properties. Depreciation and amortization expense increased $1.9 million from properties under development during 2007 that were placed in service in 2008 and $1.2 million from One Cherry Hill Plaza.

Gain on Extinguishment of Debt

In 2009, we repurchased $104.6 million in aggregate principal amount of our Exchangeable Notes in privately-negotiated transactions in exchange for $47.2 million in cash and 4.3 million common shares with a fair market value of $25.0 million. This resulted in a gain on extinguishment of debt of $27.0 million. In connection with the repurchases, we retired an aggregate of $5.4 million of deferred financing costs and debt discount.

In 2008, we repurchased $46.0 million in aggregate principal amount of our Exchangeable Notes in privately-negotiated transactions for $15.9 million in cash. This resulted in a gain on extinguishment of debt of $27.1 million. In connection with the repurchases, we retired an aggregate of $3.0 million of deferred financing costs and debt discount.

During 2007, we did not repurchase any of our Exchangeable Notes.

Gains on sales of real estate

Gains on sales of interests in real estate were $4.3 million in 2009 due to a $2.7 million gain from the sale of a parcel and related land improvements at Pitney Road Plaza, a $1.4 million gain from the sale of land adjacent to North Hanover Mall and a $0.2 million gain from the sale of a land parcel adjacent to Woodland Mall.

There were no gains on sales of real estate in 2008.

Gains on sales of interests in real estate were $2.3 million in 2007 due to a $1.5 million gain from the sale of a parcel and related land improvements at Plaza at Magnolia, a $0.6 million gain from the sale of an outparcel and related land improvements containing an operating restaurant at New River Valley Mall, and a $0.2 million gain from the sale of land adjacent to Wiregrass Commons.

Discontinued Operations

We have presented as discontinued operations the operating results of Crest Plaza (a strip center in Allentown, Pennsylvania), Northeast Tower Center (a power center in Philadelphia, Pennsylvania), Schuylkill Mall (a mall in Frackville, Pennsylvania), South Blanding Village (a strip center in Jacksonville, Florida) and Festival at Exton (a strip center in Exton, Pennsylvania).

Table of Contents

Operating results and gains on sales of discontinued operations for the properties in discontinued operations for the periods presented were as follows:

(In thousands of dollars)	For the year ended December 31, 2009	2008	2007
Operating results of:			
Northeast Tower Center	$ 1,820	$ 1,965	$ 1,697
Crest Plaza	383	584	506
Schuylkill Mall			(97)
Festival at Exton			(28)
South Blanding Village			(5)
Operating results from discontinued operations	2,203	2,549	2,073
Gains on sales of discontinued operations	9,503		6,699
Income from discontinued operations	$ 11,706	$ 2,549	$ 8,772

Gains on Sales of Discontinued Operations

Gains on sales of discontinued operations were $9.5 million for 2009 due to the gain on the sale of a controlling interest Northeast Tower Center of $6.1 million and a gain on the sale of Crest Plaza of $3.4 million.

There were no gains on sales of discontinued operations in 2008.

Gains on sales of discontinued operations were $6.7 million for 2007 due to the sale of Schuylkill Mall.

NET OPERATING INCOME

Net operating income (a non-GAAP measure) is derived from real estate revenue (determined in accordance with GAAP) minus property operating expenses (determined in accordance with GAAP). It does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to net operating income. We believe that net operating income is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time.

Net operating income excludes interest and other income, general and administrative expenses, interest expense, depreciation and amortization, gains on sales of interests in real estate, gains or sales of non-operating real estate, gains on sales of discontinued operations, gain on extinguishment of debt, impairment losses, abandoned project costs and other expenses.

Table of Contents

The following table presents net operating income results for the years ended December 31, 2009 and 2008. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Operating results for retail properties that we owned for the full periods presented (Same Store) exclude properties acquired or disposed of during the periods presented:

	For the Year Ended December 31, 2009			For the Year Ended December 31, 2008		
(in thousands of dollars)	**Real Estate Revenue**	**Operating Expenses**	**Net Operating Income**	**Real Estate Revenue**	**Operating Expenses**	**Net Operating Income**
Same Store	$ 490,584	$ (202,489)	$ 288,095	$ 497,773	$ (196,348)	$ 301,425
Non Same Store	11,431	(4,060)	7,371	9,178	(3,286)	5,892
Total	$ 502,015	$ (206,549)	$ 295,466	$ 506,951	$ (199,634)	$ 307,317

	% Change 2009 vs. 2008	
	Same Store	**Total**
Real estate revenue	(1.4%)	(1.0%)
Operating expenses	3.1%	3.5%
Net operating income	(4.4%)	(3.9%)

Primarily because of the items discussed above under Revenue and Operating Expenses, total net operating income decreased by $11.9 million in 2009 compared to 2008, and Same Store net operating income decreased by $13.3 million in 2009 compared to 2008.

The following information is provided to reconcile net loss to net operating income:

	For the Year Ended December 31,	
(in thousands of dollars)	**2009**	**2008**
Net loss	$ (90,091)	$ (16,355)
Adjustments:		
Depreciation and amortization		
Wholly owned and consolidated partnerships	166,570	150,041
Unconsolidated partnerships	8,144	8,361
Discontinued operations	1,176	1,571
Interest expense		
Wholly owned and consolidated partnerships	133,460	115,013
Unconsolidated partnerships	7,260	10,274
Discontinued operations	104	535
Gains on sales of interests in real estate	(923)	
Gains on sales of non-operating real estate	(3,388)	
Gains on sales of discontinued operations	(9,503)	
Gain on extinguishment of debt	(27,047)	(27,074)
Impairment of assets and abandoned project costs	75,012	28,889
Other expenses	37,727	40,561
Interest and other income	(3,035)	(4,499)
Net operating income	$ 295,466	$ 307,317

FUNDS FROM OPERATIONS

The National Association of Real Estate Investment Trusts (NAREIT) defines Funds From Operations, which is a non-GAAP measure, as income before gains and losses on sales of operating properties and extraordinary items (computed in accordance with GAAP); plus real estate depreciation; plus or minus adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. We compute Funds From Operations by taking the amount determined pursuant to the NAREIT definition and subtracting dividends on preferred shares (FFO) (for periods during which we had preferred shares outstanding).

Funds From Operations is a commonly used measure of operating performance and profitability in the real estate industry, and we use FFO and FFO per diluted share and OP Unit as supplemental non-GAAP measures to compare our Company s performance for different periods to that of our industry peers. Similarly, FFO per diluted share and OP Unit is a measure that is useful because it reflects the dilutive impact of outstanding convertible securities. In addition, we use FFO and FFO per diluted share and OP Unit as one of the performance measures for determining bonus amounts earned under certain of our performance-based executive compensation programs. We compute Funds From Operations in accordance with standards established by NAREIT, less dividends on preferred shares (for periods during which we had preferred shares outstanding), which may not be comparable to Funds From Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

FFO does not include gains and losses on sales of operating real estate assets, which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as net operating income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions.

We believe that net income is the most directly comparable GAAP measurement to FFO. We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as various non-recurring items that are considered extraordinary under GAAP, gains on sales of operating real estate and depreciation and amortization of real estate.

FFO was $73.1 million for the year ended December 31, 2009, a decrease of $67.9 million, or 48%, compared to $141.0 million for 2008. FFO decreased because of the decrease in net income as a result of impairment losses, higher property operating expenses and higher interest expense, partially offset by a gain on extinguishment of debt. FFO per share decreased $1.74 per share to $1.69 per share for the year ended December 31, 2009, compared to $3.43 per share for the year ended December 31, 2008.

The shares used to calculate both FFO per basic share and FFO per diluted share include common shares and OP Units not held by us. FFO per diluted share also includes the effect of common share equivalents.

Table of Contents

The following information is provided to reconcile net loss to FFO, and to show the items included in our FFO for the periods indicated:

(in thousands of dollars)	For the Year Ended December 31, 2009	Per share (including OP Units)	For the Year Ended December 31, 2008	Per share (including OP Units)
Net loss	$ (90,091)	$ (2.08)	$ (16,355)	$ (0.40)
Adjustments:				
Gains on sales of discontinued operations	(9,503)	(0.22)		
Gains on sales of interest in real estate	(923)	(0.02)		
Depreciation and amortization:				
Wholly owned and consolidated partnerships[1]	164,284	3.80	147,435	3.59
Unconsolidated partnerships[1]	8,144	0.19	8,361	0.20
Discontinued operations[1]	1,176	0.02	1,571	0.04
Funds from operations[2]	$ 73,087	$ 1.69	$ 141,012	$ 3.43
Impairment of assets	74,254	1.72	27,592	0.67
Gain on extinguishment of debt	(27,047)	(0.63)	(27,074)	(0.66)
Funds from operations as adjusted	$ 120,294	$ 2.78	$ 141,530	$ 3.45
Weighted average number of shares outstanding	40,953		38,807	
Weighted average effect of full conversion of OP Units	2,268		2,236	
Effect of common share equivalents	12		14	
Total weighted average shares outstanding, including OP Units	43,233		41,057	

(1) Excludes depreciation of non-real estate assets and amortization of deferred financing costs.
(2) Includes the non-cash effect of straight-line rent of $1.3 million and $2.0 million for the twelve months ended December 31, 2009 and 2008, respectively.

LIQUIDITY AND CAPITAL RESOURCES

This Liquidity and Capital Resources section contains certain forward-looking statements that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed in the section entitled Item 1A. Risk Factors. We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

Table of Contents

Capital Resources

We expect to meet our short-term liquidity requirements, including distributions to shareholders, recurring capital expenditures, tenant improvements and leasing commissions, but excluding development and redevelopment projects, generally through our available working capital and net cash provided by operations, and subject to the terms and conditions of our 2010 Credit Facility. We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to common shareholders and OP Unitholders in 2009 were $32.5 million, based on distributions of $0.74 per share and OP Unit. For the first quarter of 2010, we have announced a payment of $0.15 per share, which equates to an annual distribution amount of $0.60 per share. The following are some of the factors that could affect our cash flows and require the funding of future cash distributions, recurring capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

- adverse changes or prolonged downturns in general, local or retail industry economic, financial, credit market or competitive conditions, leading to a reduction in real estate revenue or cash flows or an increase in expenses;
- deterioration in our tenants business operations and financial stability, including tenant bankruptcies, leasing delays or terminations, or lower sales, causing deferrals or declines in rent, percentage rent and cash flows;
- inability to achieve targets for, or decreases in, property occupancy and rental rates, resulting in lower or delayed real estate revenue and operating income;
- increases in interest rates resulting in higher borrowing costs; and
- increases in operating costs that cannot be passed on to tenants, resulting in reduced operating income and cash flows.

We expect to meet certain of our remaining obligations to fund existing development and redevelopment projects and certain capital requirements, including scheduled debt maturities, future property and portfolio acquisitions, expenses associated with acquisitions, renovations, expansions and other non-recurring capital improvements, through a variety of capital sources, subject to the terms and conditions of our 2010 Credit Facility.

The difficult conditions in the market for debt capital and commercial mortgage loans, including the commercial mortgage backed securities market, and the downturn in the general economy and its effect on retail sales, as well as our significant leverage resulting from debt incurred to fund our redevelopment projects and other development activity, have combined to necessitate that we vary our approach to obtaining, using and recycling capital. We intend to consider all of our available options for accessing the capital markets, given our position and constraints.

The amounts remaining to be invested in the last phases of our current redevelopment projects are significantly less than in 2009, and we believe that we have access to sufficient capital to fund these remaining amounts.

In the past, one avenue available to us to finance our obligations or new business initiatives has been to obtain unsecured debt, based in part on the existence of properties in our portfolio that were not subject to mortgage loans. The terms of the 2010 Credit Facility include our grant of a security interest consisting of a first lien on 22 properties and a second lien on one property. As a result, we have very few remaining assets that we could use to support unsecured debt financing. Our lack of properties in the portfolio that could be used to support unsecured debt might limit our ability to obtain capital in this way.

We are contemplating ways to reduce our leverage through a variety of means available to us, and subject to and in accordance with the terms and conditions of the 2010 Credit Facility. These steps might include obtaining equity capital, including through the issuance of equity securities if market conditions are favorable, through joint ventures or other partnerships or arrangements involving our contribution of assets with institutional investors, private equity investors or other REITs, through sales of properties with values in excess of their mortgage loans or allocable debt and application of the excess proceeds to debt reduction, or through other actions.

In March 2009, the SEC declared effective a $1.0 billion universal shelf registration statement. Currently, we may use our shelf registration statement to offer and sell common shares of beneficial interest, preferred shares and

71

various types of debt securities, among other types of securities, to the public. However, we may be unable to issue securities under the shelf registration statement, or otherwise, on terms that are favorable to us, if at all.

2010 Credit Facility

Amended, Restated and Consolidated Senior Secured Credit Agreement

On March 11, 2010, PREIT Associates and PRI (collectively, the Borrower), together with PR Gallery I Limited Partnership (GLP) and Keystone Philadelphia Properties, L.P. (KPP), two of our other subsidiaries, entered into an Amended, Restated and Consolidated Senior Secured Credit Agreement comprised of 1) an aggregate $520.0 million term loan made up of a $436.0 million term loan (Term Loan A) to PALP and PRI and a separate $84.0 million term loan (Term Loan B) to the other two subsidiaries (collectively, the 2010 Term Loan) and 2) a $150.0 million revolving line of credit (the Revolving Facility, and, together with the 2010 Term Loan, the 2010 Credit Facility) with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto.

The 2010 Credit Facility replaces the previously existing $500.0 million unsecured revolving credit facility, as amended (the 2003 Credit Facility), and a $170.0 million unsecured term loan (the 2008 Term Loan) that had been scheduled to mature on March 20, 2010. All capitalized terms used and not otherwise defined in the description of the 2010 Credit Facility have the meanings ascribed to such terms in the 2010 Credit Facility.

The initial term of the 2010 Credit Facility is three years, and we have the right to one 12-month extension of the initial maturity date, subject to certain conditions and to the payment of an extension fee of 0.50% of the then outstanding Commitments.

We used the initial proceeds from the 2010 Credit Facility to repay outstanding balances under the 2003 Credit Facility and 2008 Term Loan. At closing, the $520.0 million 2010 Term Loan was fully outstanding and $70.0 million was outstanding under the Revolving Facility.

Amounts borrowed under the 2010 Credit Facility bear interest at a rate between 4.00% and 4.90% per annum, depending on our leverage, in excess of LIBOR, with no floor. The initial rate in effect was 4.90% per annum in excess of LIBOR. In determining our leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 8.00%. The unused portion of the Revolving Facility is subject to a fee of 0.40% per annum.

The obligations under Term Loan A are secured by first priority mortgages on 20 of our properties and a second lien on one property, and the obligations under Term Loan B are secured by first priority leasehold mortgages on the properties ground leased by GLP and KPP (the Gallery Properties). The foregoing properties constitute substantially all of our previously unencumbered retail properties.

We and certain of our subsidiaries that are not otherwise prevented from doing so serve as guarantors for funds borrowed under the 2010 Credit Facility.

The aggregate amount of the lender Revolving Commitments and 2010 Term Loan under the 2010 Credit Facility is required to be reduced by $33.0 million by March 11, 2011, by a cumulative total of $66.0 million by March 11, 2012 and by a cumulative total of $100.0 million by March 11, 2013 (if we exercise our right to extend the Termination Date), including all payments (except payments pertaining to the Release Price of a Collateral Property) resulting in permanent reduction of the aggregate amount of the Revolving Commitments and 2010 Term Loan.

The 2010 Credit Facility contains provisions regarding the application of proceeds from a Capital Event. A Capital Event is any event by which we raise additional capital, whether through an asset sale, joint venture, additional secured or unsecured debt, issuance of equity, or from excess proceeds after payment of a Release Price. Capital Events do not include Refinance Events or other specified events. After payment of interest and required distributions, the Remaining Capital Event Proceeds will generally be applied in the following order:

If the Facility Debt Yield is less than 11.00% or the Corporate Debt Yield is less than 10.00%, Remaining Capital Event Proceeds will be allocated 25% to pay down the Revolving Facility (repayments of the Revolving Facility generally may be reborrowed) and 75% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full) or, if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder of that 25% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full). So long as the Facility Debt Yield is greater than or equal to 11.00% and the Corporate Debt Yield is greater than or equal to 10.00% and each will remain so immediately after the Capital Event, and so long as either the Facility Debt Yield is less than 12.00% or the Corporate Debt Yield is less than 10.25% and will remain so immediately after the Capital Event, the Remaining Capital Event Proceeds will be allocated 75% to pay down the Revolving Facility and 25% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full) or, if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder of that 75% for general corporate purposes. So long as the Facility Debt Yield is greater than or equal to 12.00% and the Corporate Debt Yield is greater than or equal to 10.25% and each will remain so immediately after the Capital Event, Remaining Capital Event Proceeds will be applied 100% to pay down the Revolving Facility, or if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder for general corporate purposes. Remaining proceeds from a Capital Event or Refinance Event relating to Cherry Hill Mall will be used to pay down the Revolving Facility and may be reborrowed only to repay our unsecured indebtedness.

The 2010 Credit Facility also contains provisions regarding the application of proceeds from a Refinance Event. A Refinance Event is any event by which we raise additional capital from refinancing of secured debt encumbering an existing asset, not including collateral for the 2010 Credit Facility. The proceeds in excess of the amount required to retire an existing secured debt will be applied, after payment of interest, to pay down the Revolving Facility, or if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder for general corporate purposes. Remaining proceeds from a Capital Event or Refinancing Event relating to the Gallery Properties may only be used to pay down and permanently reduce Term Loan B (or, if the outstanding balance on Term Loan B is or would become $0 as a result such payment, to pay down Term Loan B in full and to pay any remainder in accordance with the preceding paragraph).

A Collateral Property will be released as security upon a sale or refinancing, subject to payment of the Release Price and the absence of any default or Event of Default. If, after release of a Collateral Property (and giving pro forma effect thereto), the Facility Debt Yield will be less than 11.00%, the Release Price will be the Minimum Release Price plus an amount equal to the lesser of (A) the amount that, when paid and applied to the 2010 Term Loan, would result in a Facility Debt Yield equal to 11.00% and (B) the amount by which the greater of (1) 100.0% of net cash proceeds and (2) 90.0% of the gross sales proceeds exceeds the Minimum Release Price. The Minimum Release Price is 110% (120% if, after the Release, there will be fewer than 10 Collateral Properties) multiplied by the proportion that the value of the property to be released bears to the aggregate value of all of the Collateral Properties on the closing date of the 2010 Credit Facility, multiplied by the amount of the then Revolving Commitments plus the aggregate principal amount then outstanding under the 2010 Term Loan. In general, upon release of a Collateral Property, the post-release Facility Debt Yield must be greater than or equal to the pre-release Facility Debt Yield. Release payments must be used to pay down and permanently reduce the amount of the Term Loan.

The 2010 Credit Facility contains affirmative and negative covenants customarily found in facilities of this type, including, without limitation, requirements that we maintain, on a consolidated basis: (1) minimum Tangible Net Worth of not less than $483.1 million, minus non-cash impairment charges with respect to the Properties recorded in the quarter ended December 31, 2009, plus 75% of the Net Proceeds of all Equity Issuances effected at any time after September 30, 2009; (2) maximum ratio of Total Liabilities to Gross Asset Value of 0.75:1; (3) minimum ratio of EBITDA to Interest Expense of 1.60:1; (4) minimum ratio of Adjusted EBITDA to Fixed Charges of 1.35:1; (5) maximum Investments in unimproved real estate and predevelopment costs not in excess of 3.0% of Gross Asset Value; (6) maximum Investments in Persons other than Subsidiaries, Consolidated Affiliates and Unconsolidated Affiliates not in excess of 1.0% of Gross Asset Value; (7) maximum Investments in Indebtedness secured by Mortgages in favor of the Company, the Borrower or any other Subsidiary not in excess of 1.0% of Gross Asset Value on the basis of cost; (8) the aggregate value of the Investments and the other items subject to the preceding clauses (5) through (7) shall not exceed 5.0% of Gross Asset Value; (9) maximum Investments in Consolidation Exempt Entities not in excess of 20.0% of Gross Asset Value; (10) a maximum Gross Asset Value attributable to any one Property not in excess of 15.0% of Gross Asset Value; (11) maximum Projects Under Development not in excess of 10.0% of Gross Asset Value; (12) maximum Floating Rate Indebtedness in an aggregate outstanding principal amount not in excess of one-third of all Indebtedness of the Company, its Subsidiaries, its Consolidated Affiliates and its Unconsolidated Affiliates; (13) minimum Corporate Debt Yield of 9.50%, provided that such Corporate Debt Yield may be less than 9.50% for one period of two consecutive fiscal quarters, but may not be less than 9.25%; and (14) Distributions may not exceed 110% of REIT taxable income for a fiscal year, but if the Corporate Debt Yield exceeds 10.00%, then the aggregate amount of Distributions may not exceed the greater of 75% of FFO and 110% of REIT Taxable Income (unless necessary for the Company to retain its status as a REIT), and if a Facility Debt Yield of 11.00% and a Corporate Debt Yield of 10.00% are achieved and continuing, there are no limits on Distributions under the 2010 Credit Facility, so long as no Default or Event of Default would result from making such Distributions. We are required to maintain our status as a REIT at all times.

We may prepay the Revolving Facility at any time without premium or penalty. We must repay the entire principal amount outstanding under the 2010 Credit Facility at the end of its term, as the term may have been extended.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all of the obligations in connection with the 2010 Credit Facility immediately due and payable, and the Commitments of the lenders to make further loans under the 2010 Credit Facility will terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of the Company, PALP, PRI, any owner of a Collateral Property or any Material Subsidiary, all outstanding amounts will automatically become immediately due and payable and the Commitments of the lenders to make further loans will automatically terminate.

Table of Contents

Exchangeable Notes

In May 2007, we, through PREIT Associates, completed the sale of $287.5 million aggregate principal amount of 4% Senior Exchangeable Notes due 2012 (Exchangeable Notes). The net proceeds from the offering of $281.0 million were used for the repayment of indebtedness under the 2003 Credit Facility, the cost of the related capped call transactions, and for other general corporate purposes. The Exchangeable Notes are general unsecured senior obligations of PREIT Associates and rank equally in right of payment with all other senior unsecured indebtedness of PREIT Associates. Interest payments, which are due on June 1 and December 1 of each year, began on December 1, 2007 and will continue until the maturity date of June 1, 2012. PREIT Associates obligations under the Exchangeable Notes are fully and unconditionally guaranteed by PREIT.

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

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

Our Exchangeable Notes had a balance of $136.9 million and $241.5 million (excluding debt discount of $4.7 million and $11.4 million) as of December 31, 2009 and December 31, 2008, respectively. Interest expense related to the Exchangeable Notes was $8.6 million, $11.5 million and $7.4 million (excluding non-cash amortization of debt discount of $2.8 million, $3.5 million and $2.1 million) for the years ended December 31, 2009, 2008, and 2007 respectively. The Exchangeable Notes bear interest at a contractual rate of 4.00% per annum. The Exchangeable Notes had an effective interest rate of 5.85% for the year ended December 31, 2009, including the effect of the debt discount amortization.

In 2009 and 2008, we repurchased $104.6 million and $46.0 million, respectively, in aggregate principal amount of our Exchangeable Notes in privately negotiated transactions in exchange for an aggregate $47.2 million in cash and 4.3 million common shares, with a fair market value of $25.0 million, in 2009, and for $15.9 million in cash in 2008. We terminated an equivalent notional amount of the related capped calls in 2009 and 2008.

We recorded gains on extinguishment of debt of $27.0 million and $27.1 million in 2009 and 2008, respectively. In connection with the repurchases, we retired an aggregate of $5.4 million and $3.0 million in 2009 and 2008, respectively, of deferred financing costs and debt discount.

Table of Contents

Mortgage Loan Finance Activity

The following table presents the mortgage loans we or partnerships in which we own interests entered into since January 1, 2007:

Financing Date	Property	Amount Financed or Extended (in millions of dollars):	Stated Rate	Hedged Rate	Maturity
2007 Activity:					
May	The Mall at Prince Georges[1]	$ 150.0	5.51% fixed	NA	June 2017
2008 Activity:					
January	Cherry Hill Mall[2][3]	55.0	5.51% fixed	NA	October 2012
February	One Cherry Hill Plaza[1][4]	5.6	LIBOR plus 1.30%	NA	August 2010
May	Creekview Center[5]	20.0	LIBOR plus 2.15%	5.56%	June 2010
June	Christiana Center[1][6]	45.0	LIBOR plus 1.85%	5.87%	June 2011
July	Paxton Towne Centre[1][6]	54.0	LIBOR plus 2.00%	5.84%	July 2011
September	Patrick Henry Mall[7]	97.0	6.34% fixed	NA	October 2015
September	Jacksonville Mall[1][8]	56.3	LIBOR plus 2.10%	5.83%	September 2013
September	Logan Valley Mall[1][8][9]	68.0	LIBOR plus 2.10%	5.79%	September 2013
September	Wyoming Valley Mall[1][8][10]	65.0	LIBOR plus 2.25%	5.85%	September 2013
October	Whitehall Mall[11]	12.4	7.00% fixed	NA	November 2018
November	Francis Scott Key Mall[1]	55.0	LIBOR plus 2.35%	5.25%	December 2013
November	Viewmont Mall[1]	48.0	LIBOR plus 2.35%	5.25%	December 2013
December	Exton Square Mall[12]	70.0	7.50% fixed	NA	January 2014
2009 Activity:					
March	New River Valley Center[13]	16.3	LIBOR plus 3.25%	5.75%	March 2012
June	Pitney Road Plaza[14]	6.4	LIBOR plus 2.50%	NA	June 2010
June	Lycoming Mall[15]	33.0	6.84% fixed	NA	June 2014
September	Northeast Tower Center[16]	20.0	LIBOR plus 2.75%	NA	September 2011
October	Red Rose Commons[17]	23.9	LIBOR plus 4.00%	NA	October 2011
2010 Activity:					
January	New River Valley Mall [1][18]	30.0	LIBOR plus 4.50%	6.33%	January 2013
March	Lycoming Mall[15]	2.5	6.84% fixed	NA	June 2014

(1) Interest only.

(2) Supplemental financing with a maturity date that coincides with the existing first mortgage loan.

(3) First 24 payments are interest only followed by principal and interest payments based on a 360-month amortization schedule.

(4) In February 2008, we entered into this mortgage loan as a result of the acquisition of Bala Cynwyd Associates, L.P. The original maturity date of the mortgage loan was August 2009, with two separate one year extension options. In June 2009, we made a principal payment of $2.4 million and exercised the first extension option.

(5) The mortgage loan has a term of two years and three one-year extension options.

(6) The mortgage loan has a term of three years and two one-year extension options.

(7) Payments based on 25 year amortization schedule, with a balloon payment in October 2015.

(8) The mortgage loan has a term of five years and two one-year extension options.

(9) The mortgage loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.10%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.

(10) The mortgage loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.25%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.

(11) The unconsolidated partnership that owns Whitehall Mall entered into the mortgage loan. Our interest in the unconsolidated partnership is 50%.

(12) Payments based on 30 year amortization schedule, with balloon payment in January 2014. The mortgage loan has a term of three years and two one-year extension options.

(13) The mortgage loan has a term of three years and two one-year extension options.

(14) We have made draws of $6.4 million and a one time principal payment of $1.9 million in connection with the sale of a parcel at the property. The loan has one six-month extension option during the construction period. We have the option to convert the loan to a two-year loan at the end of the construction period.

(15) The mortgage loan agreement provides for a maximum loan amount of $38.0 million. The initial amount of the mortgage loan was $28.0 million. We took additional draws of $5.0 million in October 2009 and $2.5 million in March 2010.

(16) In October 2009, we repaid the $20.0 million mortgage loan on Northeast Tower Center in connection with the sale of a controlling interest in this property.

(17) Interest only in its initial term. The unconsolidated partnership that owns Red Rose Commons entered into the mortgage loan. Our interest in the unconsolidated partnership is 50%.

(18) The mortgage loan has a three year term and one one-year extension option. $25.0 million of the principal amount was swapped to a fixed rate of 6.33%.

In July 2008, we repaid a $12.7 mortgage loan on Crossroads Mall in Beckley, West Virginia, using funds from the 2003 Credit Facility and available working capital.

In December 2008, we repaid a $93.0 million mortgage loan on Exton Square Mall in Exton, Pennsylvania using $70.0 million from a new mortgage on the property, the 2003 Credit Facility, the 2008 Term Loan and available working capital.

In January 2009, we repaid a $15.7 million mortgage loan on Palmer Park Mall in Easton, Pennsylvania using funds from the 2003 Credit Facility and the 2008 Term Loan.

In June 2009, we made a principal payment of $2.4 million and exercised the first one-year extension option on the mortgage loan on the One Cherry Hill Plaza office building in Cherry Hill, New Jersey.

In July 2009, the unconsolidated partnership that owns Lehigh Valley Mall exercised its third extension option of a $150.0 million mortgage loan. We own an indirect 50% ownership interest in this entity.

In October 2009, we repaid the $20.0 million mortgage loan on Northeast Tower Center in Philadelphia, Pennsylvania in connection with the sale of a controlling interest in this property.

In November 2009, we entered into a one-year extension of a $34.3 million mortgage loan secured by Valley View Mall in La Crosse, Wisconsin, with two additional six-month extension options.

In November 2009, the unconsolidated partnership that owns Springfield Mall exercised its third extension option of a $72.3 million mortgage loan. We own an indirect 50% ownership interest in this entity.

Interest Rate Derivative Agreements

As of December 31, 2009, we had entered into 12 interest rate swap agreements and one cap agreement that have a weighted average rate of 3.29% on a notional amount of $597.5 million maturing on various dates through November 2013.

We entered into these interest rate derivatives in order to hedge the interest payments associated with our 2009 and 2008 issuances of floating rate long-term debt. We assessed the effectiveness of these swaps as hedges at inception and on December 31, 2009 and considered these swaps to be highly effective cash flow hedges. Our interest rate swaps are net settled monthly.

Table of Contents

As of December 31, 2009, the aggregate estimated unrealized net loss attributed to these interest rate derivatives was $14.6 million. The carrying amount of the derivative assets is reflected in deferred costs and other assets, the associated liabilities are reflected in accrued expenses and other liabilities and the net unrealized loss is reflected in accumulated other comprehensive loss in the accompanying balance sheets.

Mortgage Loans

Twenty-eight mortgage loans, which are secured by 26 of our consolidated properties, are due in installments over various terms extending to the year 2017. Seventeen of the mortgage loans bear interest at a fixed rate and nine of the mortgage loans bear interest at variable rates that have been swapped to or capped at a fixed rate. These mortgage loans have interest rates that range from 4.95% to 7.61% and had a weighted average interest rate of 5.80% at December 31, 2009. We also have two properties with variable interest rate mortgage loans that had a weighted average interest rate of 3.07% at December 31, 2009. The weighted average interest rates of all consolidated mortgage loans is 5.79%. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity and Distributions in excess of partnership investments on the consolidated balance sheets and are not included in the table below.

The following table outlines the timing of principal payments related to our mortgage loans as of December 31, 2009.

		Payments by Period			
(in thousands of dollars)	**Total**	**2010**	**2011-2012**	**2013-2014**	**Thereafter**
Principal payments	$ 97,462	$ 19,988	$ 39,575	$ 25,166	$ 12,733
Balloon payments[1]	1,676,915	63,165	473,971	499,623	640,156
Total	$ 1,774,377	$ 83,153	$ 513,546	$ 524,789	$ 652,889

(1) Due dates for certain of the balloon payments set forth in this table may be extended pursuant to the terms of the respective loan agreements.

Contractual Obligations

The following table presents our aggregate contractual obligations as of December 31, 2009 for the periods presented.

(in thousands of dollars)	**Total**	**2010**	**2011-2012**	**2013-2014**	**Thereafter**
Mortgage loans	$ 1,774,377	$ 83,153	$ 513,546	$ 524,789	$ 652,889
Interest on mortgage loans	446,385	101,159	177,851	117,341	50,034
Exchangeable Notes	136,900		136,900		
Interest on Exchangeable Notes	13,234	5,476	7,758		
2008 Term Loan	170,000	170,000			
Interest on 2008 Term Loan	2,179	2,179			
2003 Credit Facility[1]	486,000	486,000			
Operating leases	9,115	2,263	3,963	2,889	
Ground leases	53,443	992	1,845	1,460	49,146
Development and redevelopment commitments[2]	2,320	2,320			
Total	$ 3,093,953	$ 853,542	$ 841,863	$ 646,479	$ 752,069

(1) The 2003 Credit Facility had a term that expired in March 2010. See Business Recent Developments. This amount represents the amount outstanding related to the unsecured revolving 2003 Credit Facility.

(2) The timing of the payments of these amounts is uncertain. We estimate that such payments will be made in the upcoming year, but situations could arise at these development and redevelopment projects that could delay the settlement of these obligations.

Preferred Shares

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

Share Repurchase Programs

In December 2007, our Board of Trustees authorized a program to repurchase up to $100.0 million of our common shares through solicited or unsolicited transactions in the open market or privately negotiated or other transactions from January 1, 2008 through December 31, 2009, subject to our authority to terminate the program earlier. Previously, in October 2005, our Board of Trustees had authorized a program to repurchase up to $100.0 million of our common shares. That program expired by its terms on December 31, 2007. The program was in effect until the end of 2009, when it expired according to its terms.

In 2007, we repurchased 152,500 shares at an average price of $35.67, or an aggregate purchase price of $5.4 million. The cumulative amount of shares repurchased from the inception of our prior repurchase program to December 31, 2008 was 371,200 shares, at an average price of $37.15, or an aggregate purchase price of $13.8 million. We did not repurchase any shares in 2009.

CASH FLOWS

Net cash provided by operating activities totaled $136.1 million for the year ended December 31, 2009, compared to $125.0 million for the year ended December 31, 2008, and $149.5 million for the year ended December 31, 2007. The increase in 2009 as compared to 2008 was primarily due to changes in working capital, including a $2.4 million increase in accrued expenses compared to a $12.4 million decrease in accrued expenses in 2008 and a $2.7 million decrease in tenant deposits and deferred rent, partially offset by the factors discussed in Results of Operations.

Cash flows used for investing activities were $103.4 million for the year ended December 31, 2009, compared to $353.2 million for the year ended December 31, 2008, and $242.4 million for the year ended December 31, 2007. Investing activities for 2009 reflect investment in construction in progress of $128.4 million and real estate improvements of $39.1 million, all of which primarily relate to our development and redevelopment activities. Investing activities for 2009 also reflect proceeds of $62.6 million from the sale of real estate investments. Cash flows from investing activities for the year ended December 31, 2008 reflect investment in construction in progress of $307.4 million, real estate improvements of $25.0 million and real estate acquisitions of $11.9 million.

Cash flows provided by financing activities were $31.7 million for the year ended December 31, 2009, compared to $210.1 million for the year ended December 31, 2008, and $105.0 for the year ended December 31, 2007. Cash flows provided by financing activities for the year ended December 31, 2009 were primarily affected by $75.6 million of proceeds from the mortgage loans on New River Valley Center, Pitney Road Plaza, Lycoming Mall and Northeast Tower Center as well as $86.0 million in borrowings from the 2003 Credit Facility and $10.1 million of contributions from noncontrolling interests. We used some of these proceeds to repay the $20.0 million mortgage loan on Northeast Tower Center and to repay the $15.7 million mortgage loan on Palmer Park Mall, and to make a $2.4 million principal payment on the mortgage loan on One Cherry Hill Plaza. Cash flows from financing activities for the year ended December 31, 2009 were also affected by dividends and distributions of $32.5 million, principal installments on mortgage loans of $17.6 million, and payments of $47.2 million for the repurchase of Exchangeable Notes.

COMMITMENTS

At December 31, 2009, we had $2.3 million of unaccrued contractual obligations to complete current development and redevelopment projects. Total remaining costs for the particular projects with such commitments are $40.4 million. We expect to finance these amounts through borrowings under the 2010 Credit Facility or through various other capital sources. See Liquidity and Capital Resources Capital Resources.

Table of Contents

ENVIRONMENTAL

We are aware of certain environmental matters at some of our properties, including ground water contamination and the presence of asbestos containing materials. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to $10.0 million per occurrence and up to $20.0 million in the aggregate. See Item 1. Business Environmental.

COMPETITION AND TENANT CREDIT RISK

Competition in the retail real estate industry is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, strip centers, power centers, lifestyle centers, factory outlet centers, theme/festival centers and community centers, as well as other commercial real estate developers and real estate owners, particularly those with properties near our properties, on the basis of several factors, including location and rent charged. We compete with these companies to attract customers to our properties, as well as to attract anchor and in-line store tenants. We also compete to acquire land for new site development, during more favorable economic conditions. Our malls and our strip and power centers face competition from similar retail centers, including more recently developed or renovated centers that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs, and telemarketers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent that we receive. Our tenants face competition from companies at the same and other properties and from other retail formats as well.

The development of competing retail properties and the related increased competition for tenants might require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might also affect the occupancy and net operating income of such properties. Any such capital improvements, undertaken individually or collectively, would be subject to the terms and conditions of the 2010 Credit Facility and involve costs and expenses that could adversely affect our results of operations.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. Our efforts to compete are also subject to the terms and conditions of our 2010 Credit Facility. Given current economic, capital market and retail industry conditions, however, there has been substantially less competition with respect to acquisition activity in recent quarters. When we seek to make acquisitions, these competitors might drive up the price we must pay for properties, parcels, other assets or other companies or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property and/or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under long-term leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. These tenants might defer or fail to make rental payments when due, delay or defer lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant s lease, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy of those tenants might be more significant to us than the bankruptcy of other tenants. See Item 2. Properties Major Tenants. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales. Accordingly, declines in these tenants sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of their leases, we might modify lease terms in ways that are less favorable to us.

Table of Contents

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rent based on a percentage of a tenant s sales revenue over certain levels. Income from such rent is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and there is a higher concentration of tenants vacating their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first quarter, excluding the effect of ongoing redevelopment projects. Our concentration in the retail sector increases our exposure to seasonality and is expected to continue to result in a greater percentage of our cash flows being received in the fourth quarter.

INFLATION

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rent based on a percentage of sales, which may increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which may reduce the impact of such increases on us. However, rent increases might not keep up with inflation, or if we recover a smaller proportion of property operating expenses, we might bear more costs if such expenses increase because of inflation.

Table of Contents

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2009, together with other statements and information publicly disseminated by us, contain certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- our substantial debt and our high leverage ratio;
- constraining leverage, interest and tangible net worth covenants under our 2010 Credit Facility, as well as mandatory pay down and capital application provisions;
- our ability to refinance our existing indebtedness when it matures;
- our ability to raise capital, including through the issuance of equity securities if market conditions are favorable, through joint ventures or other partnerships, through sales of properties, or through other actions;
- our short- and long-term liquidity position;
- the effects on us of dislocations and liquidity disruptions in the capital and credit markets;
- the current economic downturn and its effect on consumer confidence and consumer spending, tenant business and leasing decisions and the value and potential impairment of our properties;
- increases in operating costs that cannot be passed on to tenants;
- our ability to maintain and increase property occupancy, sales and rental rates, including at our recently redeveloped properties;
- risks relating to development and redevelopment activities;
- changes in the retail industry, including consolidation and store closings;
- general economic, financial and political conditions, including credit market conditions, changes in interest rates or unemployment;
- concentration of our properties in the Mid-Atlantic region;

changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors;

potential dilution from any capital raising transactions;

possible environmental liabilities;

our ability to obtain insurance at a reasonable cost; and

existence of complex regulations, including those relating to our status as a REIT, and the adverse consequences if we were to fail to qualify as a REIT.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in the section entitled Item 1A. Risk Factors. We do not intend to update or revise any forward-looking statements to reflect new information, future events or otherwise.

Except as the context otherwise requires, references in this Annual Report on Form 10-K to we, our, us, the Company and PREIT refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P. References in this Annual Report on Form 10-K to PREIT Associates refer to PREIT Associates, L.P. References in this Annual Report on Form 10-K to PRI refer to PREIT-RUBIN, Inc.

80

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of December 31, 2009, our consolidated debt portfolio consisted primarily of $486.0 million borrowed under our revolving 2003 Credit Facility, which bore interest at a LIBOR rate plus an applicable margin at December 31, 2009, $136.9 million of Exchangeable Notes, which bear interest at 4.00%, excluding debt discount of $4.7 million, $170.0 million borrowed under our senior unsecured 2008 Term Loan, which bore interest at a weighted-average swapped fixed interest rate of 5.29% at December 31, 2009 and $1,777.1 million in fixed and variable rate mortgage loans, including $2.7 million of mortgage debt premium.

Twenty-eight mortgage loans, which are secured by 26 of our consolidated properties, are due in installments over various terms extending to the year 2017. Seventeen of the mortgage loans bear interest at a fixed rate and nine of the mortgage loans bear interest at variable rates that have been swapped to or capped at a fixed rate. These mortgage loans have interest rates that range from 4.95% to 7.61% and had a weighted average interest rate of 5.80% at December 31, 2009. We also have two properties with variable interest rate mortgage loans that had a weighted average interest rate of 3.07% at December 31, 2009. The weighted average interest rate of all consolidated mortgage loans is 5.79%. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity and Distributions in excess of partnership investments on the consolidated balance sheets and are not included in the table below.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts of the expected annual maturities and the weighted average interest rates for the principal payments in the specified periods:

(in thousands of dollars)	Fixed-Rate Debt		Variable-Rate Debt	
Year Ended December 31,	Principal Payments	Weighted Average Interest Rate	Principal Payments	Weighted Average Interest Rate
2010	$ 243,061	5.66%	$ 496,092(1)	2.26%(2)
2011	$ 119,682	5.82%		
2012	$ 530,764	5.45%		
2013	$ 416,136	5.48%		
2014	$ 108,653	6.57%		
2015 and thereafter	$ 652,889	5.60%		

(1) Includes the unsecured revolving 2003 Credit Facility, which had a term that would have expired in March 2010. The 2003 Credit Facility was replaced by the 2010 Credit Facility.

(2) The 2003 Credit Facility interest rate is based on the weighted average interest rate in effect as of December 31, 2009.

Changes in market interest rates have different impacts on the fixed and variable portions of our debt portfolio. A change in market interest rates applicable to the fixed portion of the debt portfolio affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of the debt portfolio affects the interest incurred and cash flows, but does not affect the fair value. The following sensitivity analysis related to the fixed debt portfolio, which includes the effects of our interest rate swap agreements, assumes an immediate 100 basis point change in interest rates from their actual December 31, 2009 levels, with all other variables held constant. A 100 basis point increase in market interest rates would have resulted in a decrease in our net financial instrument position of $67.9 million at December 31, 2009. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of $70.7 million at December 31, 2009. Based on the variable-rate debt included in our debt portfolio as of December 31, 2009, a 100 basis point increase in interest rates would have resulted in an additional $5.0 million in interest annually. A 100 basis point decrease would have reduced interest incurred by $5.0 million annually.

At December 31, 2008, a 100 basis point increase in market interest rates would have resulted in a decrease in our net financial instrument position of $56.5 million. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of $59.5 million at December 31, 2008. Based on the variable-rate debt included in our debt portfolio as of December 31, 2008, a 100 basis point increase in interest rates would have resulted in an additional $4.0 million in interest annually. A 100 basis point decrease would have reduced interest incurred by $4.0 million annually.

To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued directly. Conversely, if interest rates fall, the resulting costs would be expected to be higher. We may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See note 5 of the notes to our consolidated financial statements.

We have an aggregate $597.5 million in notional amount of swap agreements settling on various dates through November 2013.

Because the information presented above includes only those exposures that existed as of December 31, 2009, it does not consider changes, exposures or positions which could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and comprehensive income and cash flows for the years ended December 31, 2009, 2008 and 2007, and the notes thereto, our report on internal control over financial reporting, the reports of our independent registered public accounting firm thereon, our summary of unaudited quarterly financial information for the years ended December 31, 2009 and 2008, and the financial statement schedule begin on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

We are committed to providing accurate and timely disclosure in satisfaction of our SEC reporting obligations. In 2002, we established a Disclosure Committee to formalize our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2009, and have concluded as follows:

Our disclosure controls and procedures are designed to ensure that the information that we are required to disclose in our reports under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Our disclosure controls and procedures are effective to ensure that information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal controls over financial reporting that occurred during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

See Management s Report on Internal Control Over Financial Reporting included before the financial statements contained in this report.

ITEM 9B. OTHER INFORMATION.

None.

Table of Contents

PART III

ITEM 10. TRUSTEES, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate will be filed no later than April 30, 2010, and thus we have omitted such information in accordance with General Instruction G(3) to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate will be filed no later than April 30, 2010, and thus we have omitted such information in accordance with General Instruction G(3) to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate will be filed no later than April 30, 2010, and thus we have omitted such information in accordance with General Instruction G(3) to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND TRUSTEE INDEPENDENCE.

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate will be filed no later than April 30, 2010, and thus we have omitted such information in accordance with General Instruction G(3) to Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate will be filed no later than April 30, 2010, and thus we have omitted such information in accordance with General Instruction G(3) to Form 10-K.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are included in this report:

(1) Financial Statements

(2) Financial Statement Schedule

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

Table of Contents

(3) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Trust Agreement dated December 18, 2008, filed as Exhibit 3.1 to PREIT s Current Report on Form 8-K filed on December 23, 2008, is incorporated herein by reference.
3.2	By-Laws of PREIT as amended through July 26, 2007, filed as Exhibit 3.2 to PREIT s Current Report on Form 8-K filed on August 1, 2007, is incorporated herein by reference.
4.1	First Amended and Restated Agreement of Limited Partnership, dated September 30, 1997, of PREIT Associates, L.P., filed as Exhibit 4.15 to PREIT s Current Report on Form 8-K dated October 14, 1997, is incorporated herein by reference.
4.2	First Amendment to the First Amended and Restated Agreement of Limited Partnership, dated September 30, 1997, of PREIT Associates, L.P., filed as Exhibit 4.1 to PREIT s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, is incorporated herein by reference.
4.3	Second Amendment to the First Amended and Restated Agreement of Limited Partnership, dated September 30, 1997, of PREIT Associates, L.P., filed as Exhibit 4.2 to PREIT s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, is incorporated herein by reference.
4.4	Third Amendment to the First Amended and Restated Agreement of Limited Partnership, dated September 30, 1997, of PREIT Associates, L.P., filed as Exhibit 4.3 to PREIT s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, is incorporated herein by reference.
4.5	Fourth Amendment to First Amended and Restated Agreement of Limited Partnership of PREIT Associates L.P. dated May 13, 2003, filed as Exhibit 4.1 to PREIT s Quarterly Report on Form 10-Q filed on November 7, 2003, is incorporated herein by reference.
4.6	Indenture dated May 8, 2007 among PREIT Associates, L.P., as issuer, PREIT, as guarantor and US Bank National Association, as Trustee, filed as Exhibit 4.1 to PREIT s Current Report on Form 8-K filed on May 10, 2007, is incorporated herein by reference.
4.7	Form of 4.00% Exchangeable Senior Note due 2012, filed as Exhibit 4.2 to PREIT s Current Report on Form 8-K filed on May 10, 2007, is incorporated herein by reference.
10.1	Registration Rights Agreement dated May 8, 2007 among PREIT, PREIT Associates, L.P., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and UBS Securities LLC, filed as Exhibit 4.3 to PREIT s Current Report on Form 8-K filed on May 10, 2007, is incorporated herein by reference.
10.2	Credit Agreement, dated as of November 20, 2003, among PALP, PREIT and each of the financial institutions signatory thereto, filed as Exhibit 10.1 to PREIT s Quarterly Report on Form 10-Q dated August 10, 2009, is incorporated herein by reference.
10.3	First Amendment to Credit Agreement by and among PREIT, PREIT Associates, L.P., the guarantors named therein and each of the financial institutions signatory thereto, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated February 2, 2005, is incorporated herein by reference.
10.4	Second Amendment to Credit Agreement by and among PREIT, PREIT Associates, L.P., the guarantors named therein and each of the financial institutions signatory thereto filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated March 7, 2006, is incorporated herein by reference.
10.5	Third Amendment to Credit Agreement and Joinder Agreement by and among PREIT, PREIT Associates, L.P., PREIT-RUBIN, Inc., the guarantors named therein and each of the financial institutions signatory thereto, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated February 20, 2007, is incorporated herein by reference.

10.6	Fourth Amendment to Credit Agreement by and among PREIT, PREIT Associates, L.P., PREIT-RUBIN, Inc., the guarantors named therein and each of the financial institutions signatory thereto, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated May 27, 2008, is incorporated herein by reference.
10.7	Form of Revolving Note, dated November 20, 2003, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K dated February 20, 2007, is incorporated herein by reference.
10.8	Second Amended and Restated Swingline Note, dated May 20, 2008, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K dated May 27, 2008, is incorporated herein by reference.
10.9	Term Loan Agreement dated September 3, 2008 by and among PREIT, PREIT Associates, L.P., PREIT-RUBIN, Inc., Wells Fargo Bank, National Association, the financial institutions party thereto and the other parties thereto, filed as Exhibit 10.2 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009.
10.10	Guaranty dated as of September 3, 2008 in favor of Wells Fargo Bank, National Association, by and among PREIT, PREIT Associates, L.P. , PREIT-RUBIN, Inc., the financial institutions party thereto and the other parties thereto, filed as Exhibit 10.3 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009.
10.11	Capped Call Confirmation dated May 2, 2007 among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P. and Merrill Lynch Financial Markets, Inc. filed as Exhibit 10.4 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
10.12	Capped Call Confirmation dated May 2, 2007 among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P. and Citibank, N.A. filed as Exhibit 10.5 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
10.13	Capped Call Confirmation dated May 2, 2007 among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P. and UBS AG, London Branch filed as Exhibit 10.6 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
10.14	Guaranty, dated as of November 20, 2003, executed by PREIT and certain of its direct and indirect subsidiaries, filed as Exhibit 10.4 to PREIT s Current Report on Form 8-K dated November 20, 2003, is incorporated herein by reference.
10.15	Letter agreement between Lehman Brothers Bank, FSB and Moorestown Mall LLC dated June 3, 2003, filed as Exhibit 10.17 to PREIT s Current Report on Form 8-K dated April 28, 2003, as amended on June 20, 2003, is incorporated herein by reference.
10.16	Promissory Note, dated June 3, 2003, in the principal amount of $64.3 million issued by Moorestown Mall LLC in favor of Lehman Brothers Bank, FSB, filed as Exhibit 10.18 to PREIT s Current Report on Form 8-K dated April 28, 2003, as amended on June 20, 2003, is incorporated herein by reference.
10.17	Promissory Note, dated May 30, 2003, in the principal amount of $70.0 million issued by PR North Dartmouth LLC in favor of Lehman Brothers Holdings, Inc., filed as Exhibit 10.19 to PREIT s Current Report on Form 8-K dated April 28, 2003, as amended on June 20, 2003, is incorporated herein by reference.
10.18	Promissory Note, dated July 11, 2005, in the principal amount of $66.0 million, issued by PR Magnolia LLC in favor of Lehman Brothers Bank, FSB, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated July 12, 2005, is incorporated herein by reference.
10.19	Promissory Note, dated September 30, 2005, in the principal amount of $100.0 million, issued by Cherry Hill Center, LLC in favor of The Prudential Insurance Company of America, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated October 3, 2005, is incorporated herein by reference.

10.20	Promissory Note, dated September 30, 2005, in the principal amount of $100.0 million, issued by Cherry Hill Center, LLC in favor of The Northwestern Mutual Life Insurance Company, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K dated October 3, 2005, is incorporated herein by reference.
10.21	Promissory Note, dated December 9, 2005, in the principal amount of $80.0 million, issued by W.G. Park, L.P. in favor of Prudential Insurance Company of America, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated December 9, 2005, is incorporated herein by reference.
10.22	Promissory Note, dated December 9, 2005, in the principal amount of $80.0 million, issued by W.G. Park, L.P. in favor of Teachers Insurance and Annuity Association of America, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K dated December 9, 2005, is incorporated herein by reference.
10.23	Promissory Note, dated February 13, 2006, in the principal amount of $90.0 million, issued by PR Hagerstown LLC in favor of Eurohypo AG, New York Branch, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated February 13, 2006, is incorporated herein by reference.
10.24	Promissory Note, dated March 24, 2006, in the principal amount of $156.5 million, issued by PR Woodland Limited Partnership in favor of Prudential Mortgage Capital Company, LLC, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated March 24, 2006, is incorporated herein by reference.
10.25	Promissory Note, dated July 10, 2006, in the principal amount of $150.0 million, issued by Mall at Lehigh Valley, L.P. in favor of JPMorgan Chase Bank, N.A, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K dated July 10, 2006, is incorporated herein by reference.
10.26	Promissory Note, dated May 17, 2007 in the principal amount of $150.0 million issued by PR Hyattsville LLC in favor of Wells Fargo Bank, N.A. filed as Exhibit 10.1 to PREIT s Current Report on From 8-K dated May 7, 2007 is incorporated herein by reference.
10.27	Declaration of Trust, dated June 19, 1997, by PREIT, as grantor, and PREIT, as initial trustee, filed as Exhibit 10.7 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
10.28	Binding Memorandum of Understanding, dated October 7, 2004, by and between Valley View Downs, L.P., Centaur Pennsylvania, LLC, and PR Valley View Downs, L.P. filed as Exhibit 10.2 to PREIT s Quarterly Report on Form 10-Q filed on November 9, 2004, is incorporated herein by reference.
10.29	Amendment No.1, dated October 1, 2007, to Binding Memorandum of Understanding, dated October 7, 2004, by and between Valley View Downs, L.P., Centaur Pennsylvania, LLC and PR Valley View Downs, L.P., filed as Exhibit to 10.9 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
10.30	Amendment Agreement dated September 10, 2008 by and between Valley View Downs, L.P., Centaur Pennsylvania, LLC, PR Valley View Downs, L.P. and PREIT-RUBIN, Inc., filed as Exhibit 10.3 to PREIT s Quarterly Report on Form 10-Q filed on November 7, 2008, is incorporated herein by reference.
+10.31	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Jeffrey Linn, filed as Exhibit 10.57 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.32	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 1, 2009, between PREIT and Jeffrey Linn, filed as Exhibit 10.2 to PREIT s Quarterly Report on Form 10-Q filed May 11, 2009, is incorporated herein by reference.
+10.33	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Edward Glickman, filed as Exhibit 10.5 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.

+10.34	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Bruce Goldman, filed as Exhibit 10.59 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.35	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Ronald Rubin, filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.36	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and George F. Rubin, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.37	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Joseph F. Coradino, filed as Exhibit 10.3 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.38	Amended and Restated Employment Agreement, dated as of December 31, 2008, between PREIT and Robert McCadden, filed as Exhibit 10.4 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.39	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 6, 2009, between PREIT and Robert F. McCadden, filed as Exhibit 10.1 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.40	Amended and Restated Employment Agreement, effective as of December 31, 2008, between PREIT and Douglas S. Grayson, filed as Exhibit 10.64 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.41	Amended and Restated Employment Agreement, effective as of December 30, 2008, between PREIT Services and Timothy R. Rubin, filed as Exhibit 10.65 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.42	Supplemental Retirement Plan for Jeffrey A. Linn, effective as of January 1, 2009, filed as Exhibit 10.66 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.43	Jeffrey A. Linn, Participation Agreement, dated December 30, 2008, filed as Exhibit 10.67 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.44	Supplemental Executive Retirement Agreement, effective as of December 31, 2008, between PREIT and Edward A. Glickman filed as Exhibit 10.10 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.45	Nonqualified Supplemental Executive Retirement Agreement, effective as of January 1, 2009, between PREIT and Douglas S. Grayson, filed as Exhibit 10.69 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
+10.46	Nonqualified Supplemental Executive Retirement Agreement, effective as of January 1, 2009, between PREIT and George F. Rubin, filed as Exhibit 10.7 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.47	Nonqualified Supplemental Executive Retirement Agreement, effective as of January 1, 2009, between PREIT and Joseph F. Coradino, filed as Exhibit 10.8 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.48	Nonqualified Supplemental Executive Retirement Agreement, effective as of January 1, 2009, between PREIT and Robert F. McCadden, filed as Exhibit 10.9 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.49	Nonqualified Supplemental Executive Retirement Agreement, effective as of January 1, 2009, between PREIT and Bruce Goldman, filed as Exhibit 10.73 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.

+10.50	Nonqualified Supplemental Executive Retirement Agreement, effective January 1, 2009, between PREIT and Ronald Rubin filed as Exhibit 10.6 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
+10.51	Nonqualified Supplemental Executive Retirement Agreement, effective January 1, 2009, between PREIT Services and Timothy R. Rubin, , filed as Exhibit 10.75 to PREIT s Annual Report on Form 10-K filed on March 2, 2009, is incorporated herein by reference.
10.52	Standstill Agreement among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P., Mark E. Pasquerilla, Crown Investments Trust, Crown American Investment Company, Crown Delaware Holding Company, Crown Holding Company, and Crown American Properties, L.P., dated as of November 18, 2003, filed as Exhibit 2.10 to PREIT s Current Report on Form 8-K dated November 20, 2003, is incorporated herein by reference.
10.53	Non-Competition Agreement among Pennsylvania Real Estate Investment Trust, PREIT Associates, L.P., Mark E. Pasquerilla, Crown Investments Trust, Crown American Investment Company, Crown Delaware Holding Company and Crown American Properties, L.P., dated as of November 18, 2003, filed as Exhibit 2.11 to PREIT s Current Report on Form 8-K dated November 20, 2003, is incorporated herein by reference.
10.54	Tax Indemnity Agreement, dated as of June 2, 2004, by and among PREIT Associates, L.P., Ivyridge Investment Corp., Leonard B. Shore, Lewis M. Stone, Pan American Office Investments, L.P., George F. Rubin, Ronald Rubin and the Non QTIP Marital Trust under the will of Richard I. Rubin filed as Exhibit 10.18 to PREIT s Quarterly Report on Form 10-Q filed on August 6, 2004, incorporated herein by reference.
+10.55	PREIT s Amended and Restated 1990 Stock Option Plan for Non-Employee Trustees, filed as Appendix A to PREIT s definitive proxy statement for the Annual Meeting of Shareholders on December 16, 1997 filed on November 18, 1997, is incorporated herein by reference.
+10.56	Amendment No. 2 to PREIT s 1990 Stock Option Plan for Non-Employee Trustees, filed as Exhibit 10.9 to PREIT s Annual Report on Form 10-K for the fiscal year ended December 31, 1998, is incorporated herein by reference.
+10.57	Amendment No. 3 to PREIT s 1990 Stock Option Plan for Non-Employee Trustees, filed as Exhibit 10.4 to PREIT s Current Report on Form 8-K filed on December 28, 2007, is incorporated herein by reference.
+10.58*	Pennsylvania Real Estate Investment Trust 2008 Restricted Share Plan for Non-Employee Trustees.
+10.59	Amendment No. 2 to the Pennsylvania Real Estate Investment Trust 2008 Restricted Share Plan For Non-Employee Trustees, filed as Exhibit 10.12 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated herein by reference.
+10.60	PREIT s 1998 Qualified Employee Share Purchase Plan, filed as Exhibit 4 to PREIT s Form S-8 dated December 30, 1998, is incorporated herein by reference.
+10.61	Amendment No. 1 to PREIT s Qualified Employee Share Purchase Plan, filed as Exhibit 10.54 to PREIT s Annual Report on Form 10-K for the fiscal year ended December 31, 1998, is incorporated herein by reference.
+10.62	PREIT s 1999 Equity Incentive Plan, filed as Appendix A to PREIT s definitive proxy statement for the Annual Meeting of Shareholders on April 29, 1999 filed on March 30, 1999, is incorporated herein by reference.
+10.63	Amendment No. 2 to PREIT s 1999 Equity Incentive Plan filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K filed on December 28, 2007, is incorporated herein by reference.
+10.64	PREIT s 2003 Equity Incentive Plan and Amendment No. 1 thereto, filed as Appendix D to PREIT s Form S-4/A dated October 1, 2003, is incorporated herein by reference.
+10.65	Amendment No. 2 to PREIT s 2003 Equity Incentive Plan filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K filed on December 28, 2007, is incorporated herein by reference.

Table of Contents

+10.66	Amendment No. 3 to PREIT s 2003 Equity Incentive Plan filed as Exhibit 10.12 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated by reference.
+10.67	Form of Incentive Stock Option Agreement under PREIT s 2003 Equity Incentive Plan filed as Exhibit 10.10 to PREIT s Quarterly Report on Form 10-Q filed on November 9, 2004, is incorporated herein by reference.
+10.68	Form of Nonqualified Stock Option Agreement under PREIT s 2003 Equity Incentive Plan filed as Exhibit 10.11 to PREIT s Quarterly Report on Form 10-Q filed on February 27, 2007, is incorporated herein by reference.
+10.69	Form of Restricted Share Award Agreement under PREIT s 2003 Equity Incentive Plan filed as Exhibit 10.1 to PREIT s Current Report on Form 8-K filed on February 26, 2008, is incorporated herein by reference.
+10.70	2008-2010 Restricted Share Unit Program, filed as Exhibit 10.2 to PREIT s Current Report on Form 8-K filed on February 26, 2008, is incorporated herein by reference.
+10.71	Form of Annual Incentive Compensation Opportunity Award for Executive Vice Presidents other than the Chief Financial Officer, filed as Exhibit 10.4 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.72	Form of Annual Incentive Compensation Opportunity Award for Members of the Office of the Chair and the Chief Financial Officer, filed as Exhibit 10.5 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.73	Form of Annual Incentive Compensation Opportunity Award for Jonathen Bell, Senior Vice President, filed as Exhibit 10.6 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.74	Form of Performance Incentive Unit Award Agreement under PREITs 2009-2011 Performance Incentive Unit Program, filed as Exhibit 10.7 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.75	Form of 2008-2010 Restricted Share Unit and Dividend Equivalent Rights Award Agreement, filed as Exhibit 10.3 to PREIT s Current Report on Form 8-K filed on February 26, 2008, is incorporated herein by reference.
+10.76	2009-2011 Performance Incentive Unit Program, filed as Exhibit 10.3 to PREIT s Quarterly Report on Form 10-Q filed on May 11, 2009, is incorporated herein by reference.
+10.77	Restricted Dividend Equivalent Rights Agreement dated as of December 23, 2008 between PREIT and Edward A. Glickman, filed as Exhibit 10.11 to PREIT s Current Report on Form 8-K filed on December 31, 2008, is incorporated herein by reference.
10.78	Registration Rights Agreement, dated as of September 30, 1997, between PREIT and Florence Mall Partners, filed as Exhibit 10.31 to PREIT s Current Report on Form 8-K dated October 14, 1997, is incorporated herein by reference.
10.79	Registration Rights Agreement, dated as of April 28, 2003, between Pennsylvania Real Estate Investment Trust and Pan American Associates, filed as Exhibit 10.8 to PREIT s Current Report on Form 8-K dated April 28, 2003, is incorporated herein by reference.
10.80	Registration Rights Agreement, dated as of April 28, 2003, among Pennsylvania Real Estate Investment Trust, The Albert H. Marta Revocable Inter Vivos Trust, Marta Holdings I, L.P. and Ivyridge Investment Corp, filed as Exhibit 10.9 to PREIT s Current Report on Form 8-K dated April 28, 2003, is incorporated herein by reference.
10.81	Registration Rights Agreement among Pennsylvania Real Estate Investment Trust, Mark E. Pasquerilla, Crown Investments Trust, Crown American Investment Company, Crown Delaware Holding Company and Crown American Properties, L.P., dated as of November 18, 2003, filed as Exhibit 2.9 to PREIT s Current Report on Form 8-K dated November 20, 2003, is incorporated herein by reference.

10.82	Real Estate Management and Leasing Agreement made as of August 1, 1996 between The Rubin Organization, Inc. and Bellevue Associates, filed as Exhibit 10.102 to PREIT s Annual Report on Form 10-K dated March 16, 2005, is incorporated by reference.
10.83	Amendment of Real Estate Management And Leasing Agreement dated as of January 1, 2005 between PREIT-RUBIN, Inc., successor-in-interest to The Rubin Organization and Bellevue Associates, filed as Exhibit 10.103 to PREIT s Annual Report on Form 10-K dated March 16, 2005, is incorporated herein by reference.
10.84	Amended and Restated Office Lease between Bellevue Associates and PREIT effective as of July 12, 1999, as amended by the First Amendment to Office Lease effective as of June 18, 2002, as further amended by the Second Amendment to Office Lease effective as of June 1, 2004, filed as Exhibit 10.10 to PREIT s Quarterly Report on Form 10-Q filed on August 10, 2009, is incorporated by reference herein.
10.85	Contribution Agreement dated January 22, 2008 by and among Bala Cynwyd Associates, L.P., City Line Associates, Ronald Rubin, George Rubin, Joseph Coradino, Leonard Shore, Lewis Stone, PREIT, PREIT Associates, L.P. and PR Cherry Hill Office GP, LLC, filed as Exhibit 10.131 to PREIT s Annual Report on Form 10-K dated February 29, 2008, is incorporated herein by reference.
21*	Direct and Indirect Subsidiaries of the Registrant.
23.1*	Consent of KPMG LLP (Independent Registered Public Accounting Firm).
24*	Power of Attorney (included on signature page to this Form 10-K).
31.1*	Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this form.

(*) Filed herewith

Table of Contents

SIGNATURES

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

	PENNSYLVANIA REAL ESTATE INVESTMENT TRUST	
Date: March 16, 2010	By:	/s/ Edward A. Glickman **Edward A. Glickman** **President and Chief Operating Officer**

93

Table of Contents

POWER OF ATTORNEY

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

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

Name	Capacity	Date
/s/ Ronald Rubin	Chairman and Chief Executive Officer and Trustee	March 16, 2010
Ronald Rubin	(principal executive officer)	
/s/ George F. Rubin	Vice Chairman and Trustee	March 16, 2010
George F. Rubin		
/s/ Edward A. Glickman	President and Chief Operating Officer and Trustee	March 16, 2010
Edward A. Glickman		
/s/ Joseph F. Coradino	Executive Vice President and Trustee	March 16, 2010
Joseph F. Coradino		
/s/ Robert F. McCadden	Executive Vice President and Chief Financial Officer	March 16, 2010
Robert F. McCadden	(principal financial officer)	
/s/ Jonathen Bell	Senior Vice President Chief Accounting Officer	March 16, 2010
Jonathen Bell	(principal accounting officer)	
/s/ Dorrit J. Bern	Trustee	March 16, 2010
Dorrit J. Bern		
/s/ Stephen B. Cohen	Trustee	March 16, 2010
Stephen B. Cohen		
/s/ M. Walter D Alessio	Trustee	March 16, 2010
M. Walter D Alessio		
/s/ Rosemarie B. Greco	Trustee	March 16, 2010

Rosemarie B. Greco		
/s/ Lee H. Javitch	Trustee	March 16, 2010
Lee H. Javitch		

94

Table of Contents

/s/ Leonard I. Korman	Trustee	March 16, 2010
Leonard I. Korman		
/s/ Ira M. Lubert	Trustee	March 16, 2010
Ira M. Lubert		
/s/ Donald F. Mazziotti	Trustee	March 16, 2010
Donald F. Mazziotti		
/s/ Mark E. Pasquerilla	Trustee	March 16, 2010
Mark E. Pasquerilla		
/s/ John J. Roberts	Trustee	March 16, 2010
John J. Roberts		

Table of Contents

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

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

In connection with the preparation of the Company s annual consolidated financial statements, management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included an evaluation of the design of the Company s internal control over financial reporting and testing of the operational effectiveness of those controls. Based on this evaluation, we have concluded that, as of December 31, 2009, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders

Pennsylvania Real Estate Investment Trust:

We have audited the accompanying consolidated balance sheets of Pennsylvania Real Estate Investment Trust (a Pennsylvania business trust) and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Real Estate Investment Trust and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for noncontrolling interests and Exchangeable Notes due to the adoption of FASB Accounting Standard 160 *Noncontrolling Interests In Consolidated Financial Statements* and FASB Staff Positions 14-1 *Accounting For Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement),* respectively, (included in FASB ASC Topics 805 *Business Combinations* and 470 *Debt*, respectively) as of January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pennsylvania Real Estate Investment Trust s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG

Philadelphia, Pennsylvania
March 15, 2010

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders

Pennsylvania Real Estate Investment Trust:

We have audited Pennsylvania Real Estate Investment Trust s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pennsylvania Real Estate Investment Trust s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Pennsylvania Real Estate Investment Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pennsylvania Real Estate Investment Trust and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 15, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Philadelphia, Pennsylvania
March 15, 2010

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except share and per share amounts)	December 31, 2009	(as revised) December 31, 2008
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$ 3,459,745	$ 3,287,232
Construction in progress	215,231	411,479
Land held for development	9,337	9,337
Total investments in real estate	3,684,313	3,708,048
Accumulated depreciation	(623,309)	(516,832)
Net investments in real estate	3,061,004	3,191,216
INVESTMENTS IN PARTNERSHIPS, at equity	32,694	36,164
OTHER ASSETS:		
Cash and cash equivalents	74,243	9,786
Tenant and other receivables (net of allowance for doubtful accounts of $19,981 and $16,895 at December 31, 2009 and 2008, respectively)	55,303	57,970
Intangible assets (net of accumulated amortization of $198,984 and $164,666 at December 31, 2009 and 2008, respectively)	38,978	68,296
Deferred costs and other assets	84,358	80,845
Total assets	$ 3,346,580	$ 3,444,277
LIABILITIES:		
Mortgage loans (including debt premium of $2,744 and $4,026 at December 31, 2009 and 2008, respectively)	$ 1,777,121	$ 1,760,296
Exchangeable notes (net of debt discount of $4,664 and $11,421 at December 31, 2009 and 2008, respectively)	132,236	230,079
2003 Credit Facility	486,000	400,000
Senior unsecured 2008 Term Loan	170,000	170,000
Tenants deposits and deferred rent	13,170	13,112
Distributions in excess of partnership investments	48,771	48,788
Accrued construction expenses	11,778	38,859
Fair value of derivative instruments	14,610	29,169
Accrued expenses and other liabilities	58,090	55,711
Total liabilities	2,711,776	2,746,014
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Shares of beneficial interest, $1.00 par value per share; 100,000,000 shares authorized; issued and outstanding 44,615,647 shares at December 31, 2009 and 39,468,523 shares at December 31, 2008	44,616	39,469
Capital contributed in excess of par	881,735	853,281
Accumulated other comprehensive loss	(30,016)	(45,341)
Distributions in excess of net income	(317,682)	(201,080)
Total equity Pennsylvania Real Estate Investment Trust	578,653	646,329
Noncontrolling interest	56,151	51,934

Total equity	634,804	698,263
Total liabilities and equity	$ 3,346,580	$ 3,444,277

See accompanying notes to consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	2009	(as revised) 2008	(as revised) 2007
	For the Year Ended December 31,		
REVENUE:			
Base rent	$ 298,185	$ 295,608	$ 288,509
Expense reimbursements	137,759	138,331	135,080
Percentage rent	5,357	7,157	9,067
Lease termination revenue	2,154	4,114	1,589
Other real estate revenue	16,598	18,284	19,369
Interest and other income	3,035	4,499	6,976
Total revenue	463,088	467,993	460,590
EXPENSES:			
Operating expenses:			
CAM and real estate tax	(141,758)	(133,943)	(127,955)
Utilities	(24,074)	(24,837)	(24,965)
Operating expenses	(27,744)	(27,740)	(26,090)
Total operating expenses	(193,576)	(186,520)	(179,010)
Depreciation and amortization	(166,570)	(150,041)	(130,632)
Other expenses:			
General and administrative expenses	(37,558)	(40,324)	(41,415)
Impairment of assets and abandoned project costs	(75,012)	(28,889)	(1,531)
Income taxes and other expenses	(169)	(237)	(413)
Total other expenses	(112,739)	(69,450)	(43,359)
Interest expense, net	(133,460)	(115,013)	(100,188)
Gain on extinguishment of debt	27,047	27,074	
Total expenses	(579,298)	(493,950)	(453,189)
(Loss) income before equity in income of partnerships, gains on sales of real estate, and discontinued operations	(116,210)	(25,957)	7,401
Equity in income of partnerships	10,102	7,053	4,637
Gains on sales of real estate	4,311		2,310
(Loss) income from continuing operations	(101,797)	(18,904)	14,348
Discontinued operations:			
Operating results from discontinued operations	2,203	2,549	2,073
Gains on sales of discontinued operations	9,503		6,699
Income from discontinued operations	11,706	2,549	8,772
Net (loss) income	(90,091)	(16,355)	23,120
Net loss (income) attributed to noncontrolling interest	4,353	589	(2,016)
Net (loss) income before redemption of and dividends on preferred shares	(85,738)	(15,766)	21,104
Redemption of preferred shares			13,347

Dividends on preferred shares			(7,941)
Net (loss) income attributable to Pennsylvania Real Estate Investment Trust	$ (85,738)	$ (15,766)	$ 26,510

See accompanying notes to consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

EARNINGS PER SHARE

	For the Year Ended December 31,		
		(as revised)	(as revised)
(in thousands, except per share amounts)	2009	2008	2007
(Loss) income from continuing operations	$ (101,797)	$ (18,904)	$ 14,348
Noncontrolling interest continuing operations	4,115	541	(1,818)
Redemption of preferred shares			13,347
Dividends on preferred shares			(7,941)
(Loss) income from continuing operations available to common shareholders	(97,682)	(18,363)	17,936
Dividends on restricted shares	(797)	(1,222)	(1,088)
(Loss) income from continuing operations used to calculate earnings per share basic and diluted	$ (98,479)	$ (19,585)	$ 16,848
Income from discontinued operations	11,706	2,549	8,772
Noncontrolling interest discontinued operations	238	48	(198)
Income from discontinued operations used to calculate earnings per share basic and diluted	$ 11,944	$ 2,597	$ 8,574
Basic (loss) earnings per share:			
(Loss) income from continuing operations	$ (2.40)	$ (0.50)	$ 0.45
Income from discontinued operations	0.29	0.07	0.23
	$ (2.11)	$ (0.43)	$ 0.68
Diluted (loss) earnings per share:			
(Loss) income from continuing operations	$ (2.40)	$ (0.50)	$ 0.44
Income from discontinued operations	0.29	0.07	0.23
	$ (2.11)	$ (0.43)	$ 0.67
Weighted average shares outstanding basic	40,953	38,807	37,577
Effect of dilutive common share equivalents[1]			325
Weighted average shares outstanding diluted	40,953	38,807	37,902

(1) For the years ended December 31, 2009 and December 31, 2008, there are net losses allocable to common shareholders from continuing operations, so the effect of common share equivalents of 12 and 14 for the years ended December 31, 2009 and December 31, 2008, respectively, is excluded from the calculation of diluted loss per share.

See accompanying notes to consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

For the years ended

December 31, 2009, 2008 and 2007

			PREIT Shareholders					
(in thousands of dollars, except per share amounts)	**Total Equity**	**Comprehensive Income (Loss)**	**Shares of Beneficial Interest $1.00 Par**	**Preferred Shares $0.01 Par**	**Capital Contributed in Excess of Par**	**Accumulated Other Comprehensive Loss**	**Distributions in Excess of Net Income (Loss)**	**Non-controlling Interest**
Balance January 1, 2007	$ 1,043,664	$	$ 36,947	$ 25	$ 917,322	$ 7,893	$ (32,886)	$ 114,363
Comprehensive income (loss):								
Net income	23,120	23,120					21,104	2,016
Unrealized loss on derivatives	(14,644)	(14,644)				(14,644)		
Other comprehensive loss	(217)	(217)				(217)		
Total comprehensive income	8,259	$ 8,259						2,016
Shares issued upon redemption of Operating Partnership Units			2,053		51,231			(53,284)
Shares issued upon exercise of options	221		76		145			
Shares issued under distribution reinvestment and share purchase plan	3,883		98		3,785			
Shares issued under employee share purchase plans	762		20		742			
Shares issued under equity incentive plans, net of retirements	(2,090)		93		(2,183)			
Repurchase of common shares	(5,444)		(153)		(3,291)		(2,000)	
Preferred share redemption	(129,956)			(25)	(143,278)		13,347	
Capped calls	(12,578)				(12,578)			
Exchangeable notes discount	19,255				19,255			
Amortization of deferred compensation	7,071				7,071			
Distributions paid to common shareholders ($2.28 per share)	(86,475)						(86,475)	
Distributions paid to preferred shareholders ($3.50 per share)	(8,659)						(8,659)	
Distributions paid to noncontrolling interest:								
Distributions paid to Operating Partnership unitholders ($2.28 per unit)	(7,582)							(7,582)
Distributions to noncontrolling interest, net	(347)							(347)
Balance December 31, 2007	$ 829,984		$ 39,134	$	$ 838,221	$ (6,968)	$ (95,569)	$ 55,166
Comprehensive income (loss):								
Net loss	(16,355)	(16,355)					(15,766)	(589)
Unrealized loss on derivatives	(38,415)	(38,415)				(38,415)		
Other comprehensive income	42	42				42		
Total comprehensive loss	(54,728)	$ (54,728)						(589)
Shares issued upon redemption of Operating Partnership Units			42		973			(1,015)
Shares issued upon exercise of options	610		26		584			
	1,329		70		1,259			

Shares issued under distribution reinvestment and share purchase plan							
Shares issued under employee share purchase plans	729		45	684			
Shares issued under equity incentive plans, net of retirements	(28)		176	(204)			
Repurchase of common shares	(624)		(24)	(600)			
Adjustment for Outperformance plan (note 9)	2,911			2,911			
Amortization of deferred compensation	9,453			9,453			
Distributions paid to common shareholders ($2.28 per share)	(89,745)					(89,745)	
Distributions paid to noncontrolling interest:							
Distributions paid to Operating Partnership unitholders ($2.28 per unit)	(4,957)						(4,957)
Contributions from noncontrolling interest, net	3,329						3,329
Balance December 31, 2008	$ 698,263		$ 39,469	$ 853,281	$ (45,341)	$ (201,080)	$ 51,934
Comprehensive loss:							
Net loss	(90,091)	(90,091)				(85,738)	(4,353)
Unrealized gain on derivatives	14,558	14,558			13,836		722
Other comprehensive income	1,567	1,567			1,489		78
Total comprehensive loss	(73,966)	$ (73,966)					(3,553)
Shares issued upon redemption of Operating Partnership Units			13	276			(289)
Shares issued under distribution reinvestment and share purchase plan	260		45	215			
Shares issued under employee share purchase plans	502		102	400			
Shares issued under equity incentive plans, net of retirements	(207)		687	(894)			
Shares issued for repurchase of exchangeable notes	24,988		4,300	20,688			
Amortization of deferred compensation	7,769			7,769			
Distributions paid to common shareholders ($0.74 per share)	(30,864)					(30,864)	
Distributions paid to noncontrolling interest:							
Distributions paid to Operating Partnership unitholders ($0.74 per unit)	(1,610)						(1,610)
Contributions from noncontrolling interest, net	9,669						9,669
Balance December 31, 2009	$ 634,804		$ 44,616	$ 881,735	$ (30,016)	$ (317,682)	$ 56,151

See accompanying notes to consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	2009	(as revised) 2008	(as revised) 2007
Cash flows from operating activities:			
Net (loss) income	$ (90,091)	$ (15,766)	$ 21,104
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	134,301	117,988	100,020
Amortization	40,672	28,915	22,278
Straight-line rent adjustments	(1,308)	(2,338)	(2,439)
Provision for doubtful accounts	6,567	4,666	2,414
Amortization of deferred compensation	7,769	8,634	7,071
Amortization of Outperformance Program		819	819
Gain on sales of real estate investments and discontinued operations	(13,814)		(9,009)
Net gain on forward starting swap activities		(2,002)	
Impairment of assets and abandoned project costs	75,012	28,889	1,531
Gain on extinguishment of debt	(27,047)	(27,074)	
Change in assets and liabilities:			
Net change in other assets	(1,914)	(9,393)	(5,979)
Net change in other liabilities	6,001	(8,375)	11,676
Net cash provided by operating activities	136,148	124,963	149,486
Cash flows from investing activities:			
Additions to construction in progress	(128,364)	(307,411)	(213,761)
Investments in real estate improvements	(39,113)	(25,027)	(32,524)
Investments in real estate acquisitions, net of cash acquired	(458)	(11,914)	(11,657)
Additions to leasehold improvements	(317)	(762)	(945)
Investments in partnerships	(1,811)	(4,006)	(13,654)
Capitalized leasing costs	(4,341)	(5,314)	(4,830)
Cash proceeds from sales of real estate investments	62,595	126	32,286
Decrease in cash escrows	3,313	7,181	1,130
Increase in notes receivable from tenants		(10,000)	
Cash distributions from partnerships in excess of equity in income	5,091	3,888	1,578
Net cash used in investing activities	(103,405)	(353,239)	(242,377)
Cash flows from financing activities:			
Net borrowing from (repayment of) 2003 Credit Facility	86,000	70,000	(2,000)
Borrowings from senior unsecured 2008 Term Loan		170,000	
Proceeds from mortgage loans	75,602	633,265	150,000
Proceeds from sale of exchangeable notes			281,031
Repayment of mortgage loans	(39,933)	(506,514)	(56,663)
Repayment of corporate notes			(1,148)
Principal installments on mortgage loans	(17,561)	(21,603)	(23,123)
Repurchase of exchangeable notes	(47,156)	(15,912)	
Net payment from settlement of forward-starting interest swap agreements		(16,503)	4,069
Payment of deferred financing costs	(3,397)	(10,487)	(4,201)
Purchase of capped calls			(12,578)
Dividends paid to common shareholders	(30,864)	(89,745)	(86,475)
Dividends paid to preferred shareholders			(8,659)
Distributions paid to Operating Partnership unitholders and noncontrolling interest	(1,610)	(4,957)	(7,582)
Shares of beneficial interest issued	659	3,217	19,157
Shares of beneficial interest repurchased, other	(114)	(624)	(6,983)
Shares of beneficial interest repurchased under share repurchase program			(5,444)
Redemption of preferred shares			(129,955)
Operating Partnership units purchased or redeemed			(4,438)
Contributions from investor with noncontrolling interest in project	10,088		

Net cash provided by financing activities	31,714	210,137	105,008
Net change in cash and cash equivalents	64,457	(18,139)	12,117
Cash and cash equivalents, beginning of year	9,786	27,925	15,808
Cash and cash equivalents, end of year	$ 74,243	$ 9,786	$ 27,925

See accompanying notes to the consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2009, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls and strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of December 31, 2009, the Company s portfolio consisted of a total of 54 properties in 13 states, including 38 shopping malls, 13 strip and power centers and three properties under development. The ground-up development portion of the Company s portfolio contained three properties in two states, with two classified as mixed use (a combination of retail and other uses), and one classified as other.

The Company holds its interest in its portfolio of properties through its operating partnership, PREIT Associates, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of December 31, 2009, the Company held a 95.0% interest in the Operating Partnership, and consolidates it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

The Company evaluates operating results and allocates resources on a property-by-property basis, and does not distinguish or evaluate consolidated operations on a geographic basis. No individual property constitutes more than 10% of consolidated revenue or assets, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to the nature of the Company s properties and the nature of the Company s tenants and operational processes, as well as long-term financial performance. In addition, no single tenant accounts for 10% or more of consolidated revenue, and none of the Company s properties are located outside the United States.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner s units of limited partnership interest in the Operating Partnership (OP Units) for cash or, at the election of the Company, the Company may acquire such OP Units for common shares of the Company on a one-for-one basis, in some cases beginning one year following the respective issue date of the OP Units and in other cases immediately. In the event of the redemption of all of the outstanding OP Units held by limited partners for cash, the total amount that would have been distributed as of December 31, 2009 would have been $19.7 million, which is calculated using the Company s December 31, 2009 closing share price on the New York Stock Exchange of $8.46 multiplied by the number of outstanding OP Units held by limited partners.

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

Consolidation

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

Current Economic Downturn, Challenging Capital Market Conditions, the Company s Leverage and Near Term Capital Needs

The downturn in the overall economy and the disruptions in the financial markets have reduced consumer confidence and negatively affected employment and consumer spending on retail goods. As a result, the sales and profit performance of retailers in general has decreased, sales at the Company s properties in particular have decreased, and the Company has experienced delays or deferred decisions regarding the openings of new retail stores and of lease renewals. The Company is adjusting its plans and actions to take into account the difficult current environment.

In addition, credit markets have experienced significant dislocations and liquidity disruptions. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the limited availability or unavailability of certain types of debt financing.

The difficult conditions in the market for debt capital and commercial mortgage loans, including the commercial mortgage backed securities market, and the downturn in the general economy and its effect on retail sales, as well as the Company s significant leverage resulting from the use of debt to fund its redevelopment program and other development activity, have combined to necessitate that the Company vary its approach to obtaining, using and recycling capital. The Company intends to consider all of its available options for accessing the capital markets, given its position and constraints.

The amounts remaining to be invested in the last phases of the Company s current redevelopment projects are significantly less than in 2009, and the Company believes it has access to sufficient capital to fund these remaining amounts.

The Company is contemplating ways to reduce its leverage through a variety of means available to it, and subject to and in accordance with the terms of the 2010 Credit Facility. These steps might include obtaining equity capital, including through the issuance of equity securities if market conditions are favorable, through joint ventures or other partnerships or arrangements involving the contribution of assets with institutional investors, private equity investors or other REITs, through sales of properties with values in excess of their mortgage loans or allocable debt and application of the excess proceeds to debt reduction, or through other actions.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Partnership Investments

The Company accounts for its investments in partnerships that it does not control using the equity method of accounting. These investments, each of which represent a 40% to 50% noncontrolling ownership interest at December 31, 2009, are recorded initially at the Company s cost and subsequently adjusted for the Company s share of net equity in income and cash contributions and distributions. The Company does not control any of these equity method investees for the following reasons:

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

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

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

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

Statements of Cash Flows

The Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash and cash equivalents totaled $74.2 million and $9.8 million, respectively, and included tenant security deposits of $4.1 million and $4.5 million, respectively. Cash paid for interest, including interest related to discontinued operations, was $124.9 million, $117.5 million and $109.5 million for the years ended December 31, 2009, 2008 and 2007, respectively, net of amounts capitalized of $5.6 million, $16.0 million and $16.3 million, respectively.

Significant Non-Cash Transactions

Accrued construction expenses decreased $27.1 million in the twelve months ended December 31, 2009, representing a non-cash decrease in construction in progress.

In October 2009, the Company repurchased $35.0 million in aggregate principal amount of its 4% Senior Exchangeable Notes due in 2012 (Exchangeable Notes) in exchange for 1.3 million common shares with a fair market value of $10.0 million and $13.3 million of cash. In June 2009, the Company repurchased $25.0 million in aggregate principal amount of its Exchangeable Notes in exchange for 3.0 million common shares with a fair market value of $15.0 million.

In February 2008, the Company acquired a 0.1% general partner interest and a 49.8% limited partner interest in Bala Cynwyd Associates, L.P. (BCA) for $3.9 million. In June 2009, the Company acquired an additional 49.9% of the limited partner interest in BCA for 140,745 OP Units pursuant to a put/call arrangement. In connection with the acquisition of partnership interests in BCA in 2008, the Company consolidated an $8.0 million mortgage loan.

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

Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

statements, and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

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

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

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

Revenue Recognition

The Company derives over 95% of its revenue from tenant rent and other tenant-related activities. Tenant rent includes base rent, percentage rent, expense reimbursements (such as common area maintenance, real estate taxes and utilities), amortization of above-market and below-market intangibles (as described below under Intangible Assets) and straight-line rent. The Company records base rent on a straight-line basis, which means that the monthly base rent income according to the terms of the Company s leases with its tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. When tenants vacate prior to the end of their lease, the Company accelerates amortization of any related unamortized straight-line rent balances, and unamortized above-market and below-market intangible balances are amortized as a decrease or increase to real estate revenue, respectively. The straight-line rent adjustment increased revenue by approximately $1.3 million in 2009, $2.3 million in 2008 and $2.4 million in 2007. The straight-line receivable balances included in tenant and other receivables on the accompanying balance sheet as of December 31, 2009 and December 31, 2008 were $24.9 million and $24.2 million, respectively.

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

In addition to base rent, certain lease agreements contain provisions that require tenants to reimburse a fixed or pro rata share of certain common area maintenance costs and real estate taxes. Tenants generally make expense reimbursement payments monthly based on a budgeted amount determined at the beginning of the year. During the year, the Company s income increases or decreases based on actual expense levels and changes in other factors that influence the reimbursement amounts, such as occupancy levels. As of December 31, 2009 and 2008, the Company s accounts receivable included accrued income of $8.9 million and $11.7 million, respectively, because actual reimbursable expense amounts able to be billed to tenants under applicable contracts exceeded amounts actually billed. Subsequent to the end of the year, the Company prepares a reconciliation of the actual amounts due from tenants. The difference between the actual amount due and the amounts paid by the tenant throughout the year is billed or credited to the tenant, depending on whether the tenant paid too little or too much during the year.

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

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

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

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Fair Value

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

These new accounting requirements emphasize that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The Company utilizes the fair value hierarchy in its accounting for derivatives (level 2), financial instruments (level 3) and in its impairment reviews of real estate assets (level 3) and goodwill (level 3).

Derivatives

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

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2009, the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Financial Instruments

Carrying amounts reported on the balance sheet for cash and cash equivalents, tenant and other receivables, accrued expenses, other liabilities and the 2003 Credit Facility approximate fair value due to the short-term nature of these instruments. The majority of the Company s variable-rate debt is subject to interest rate swaps that have effectively fixed the interest rates on the underlying debt. The estimated fair value for fixed-rate debt, which is calculated for disclosure purposes, is based on the borrowing rates available to the Company for fixed-rate mortgage loans and corporate notes payable with similar terms and maturities.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Asset Impairment

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

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

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

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

Goodwill

The Company conducts an annual review of its goodwill balances for impairment to determine whether an adjustment to the carrying value of goodwill is required. The Company has determined the fair value of its properties and the goodwill that is associated with certain of its properties. Fair value is determined by applying a capitalization rate to the Company s estimate of projected income at those properties. The Company also considers factors such as property sales performance, market position and current and future operating results.

The Company s intangible assets on the accompanying consolidated balance sheets at December 31, 2009 and 2008 included $7.2 million (net of $1.1 million of amortization expense recognized prior to January 1, 2002) of goodwill recognized in connection with the acquisition of The Rubin Organization in 1997.

Changes in the carrying amount of goodwill for the three years ended December 31, 2009 were as follows:

(in thousands of dollars)	Basis	Accumulated Amortization	Impairment Write-Offs	Total
Balance, January 1, 2007	$ 12,877	$ (1,073)	$	$ 11,804
Goodwill divested				
Balance, December 31, 2007	12,877	(1,073)		11,804
Impairment			(4,648)	(4,648)

Balance, December 31, 2008	12,877	(1,073)	(4,648)	7,156
Goodwill divested				
Impairment				
Balance, December 31, 2009	$ 12,877	$ (1,073)	$ (4,648)	$ 7,156

F-13

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Real Estate

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

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

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

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

Gains from sales of real estate properties and interests in partnerships generally are recognized using the full accrual method provided that various criteria are met relating to the terms of sale and any subsequent involvement by the Company with the properties sold.

Real Estate Acquisitions

The Company accounts for its property acquisitions by allocating the purchase price of a property to the property s assets based on management s estimates of their fair value. Debt assumed in connection with property acquisitions is recorded at fair value at the acquisition date, and the resulting premium or discount is amortized through interest expense over the remaining term of the debt, resulting in a non-cash decrease (in the case of a premium) or increase (in the case of a discount) in interest expense. The determination of the fair value of intangible assets requires significant estimates by management and considers many factors, including the Company s expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in such assumptions can have a significant impact on the magnitude of the intangible assets that the Company records.

Intangible Assets

The Company allocates a portion of the purchase price of a property to intangible assets. The Company s methodology for this allocation includes estimating an as-if vacant fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the as-if vacant fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

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

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

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

The following table presents the Company s intangible assets and liabilities, net of accumulated amortization, as of December 31, 2009 and 2008:

(in thousands of dollars)	As of December 31, 2009	As of December 31, 2008
Value of in-place lease intangibles	$ 28,360	$ 55,745
Above-market lease intangibles	3,462	5,395
Subtotal	31,822	61,140
Goodwill (see above)	7,156	7,156
Total intangible assets	$ 38,978	$ 68,296
Below-market lease intangibles	$ (5,942)	$ (7,996)

Amortization of in-place lease intangibles was $27.4 million, $29.1 million and $29.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Amortization of above-market and below-market lease intangibles increased revenue by $0.1 million in 2009 and decreased revenue by $0.6 million and $0.1 million in 2008 and 2007, respectively.

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

(in thousands of dollars) For the Year Ended December 31,	In-Place Lease Intangibles	Above/(Below) Market Leases
2010	$ 22,042	$ 142
2011	5,086	197
2012	1,189	(29)
2013	43	(249)
2014		(437)
2015 and thereafter		(2,104)
Total	$ 28,360	$ (2,480)

Assets Held for Sale and Discontinued Operations

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

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Capitalization of Costs

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

The Company capitalizes payments made to obtain options to acquire real property. Other related costs that are incurred before acquisition that are expected to have ongoing value to the project are capitalized if the acquisition of the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is probable that the property will not be acquired. The Company recorded abandoned project costs of $0.8 million, $1.3 million and $1.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The Company capitalizes salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases with third-party tenants.

The following table summarizes the Company s capitalized salaries and benefits, real estate taxes and interest for the years ended December 31, 2009, 2008 and 2007:

	For the Year Ended December 31,		
(in thousands of dollars)	**2009**	**2008**	**2007**
Development/Redevelopment:			
Salaries and benefits	$ 2,123	$ 3,276	$ 2,349
Real estate taxes	$ 951	$ 2,380	$ 2,236
Interest	$ 5,613	$ 15,968	$ 16,259
Leasing:			
Salaries, commissions and benefits	$ 4,341	$ 5,314	$ 4,830

Tenant Receivables

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

Boscov s Inc. Note Receivable

The Company has a note receivable from a subsidiary of Boscov s, Inc. with an outstanding principal balance of $10.0 million as of December 31, 2009 and 2008. The note was originated in December 2008. The note bears interest at the rate of 18.0% per annum, of which 10.0% is payable monthly, and 8.0% is deferred and either paid annually in January of each year that the note is outstanding or added to the principal balance. The note matures in December 2013 at which time all principal and deferred interest is payable. The note may be prepaid in whole or in part at any time without premium or penalty. Interest payments under the note were current as of December 31, 2009. Boscov s, Inc. owns 39 Boscov s department stores, eight of which are located at properties owned by the Company, and one of which is located at a property owned by a partnership in which the Company owns a 50% interest. Boscov s, Inc. filed for bankruptcy protection in August 2008, and exited from bankruptcy in September 2009.

Income Taxes

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

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

The Company is subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the excess, if any, of 85% of the Company s ordinary income plus 95% of the Company s capital gain net income for

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

the year plus 100% of any prior year shortfall over cash distributions during the year, as defined by the Internal Revenue Code. The Company has, in the past, distributed a substantial portion of its taxable income in the subsequent fiscal year and might also follow this policy in the future.

No provision for excise tax was made for the years ended December 31, 2009, 2008, and 2007, as no excise tax was due in those years.

The per share distributions paid to shareholders had the following components for the years ended December 31, 2009, 2008, and 2007:

	For the Year Ended December 31,		
	2009	**2008**	**2007**
Ordinary income	$ 0.63	$ 2.25	$ 2.11
Capital gains	0.11		
Return of capital		0.03	0.17
	$ 0.74	$ 2.28	$ 2.28

The Company follows accounting requirements that prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more likely than not recognition threshold, the position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement to determine the amount of benefit to recognize in the financial statements.

PRI is subject to federal, state and local income taxes. The Company had no provision or benefit for federal or state income taxes in the years ended December 31, 2009, 2008 and 2007. The Company had net deferred tax assets of $5.1 million and $5.3 million for the years ended December 31, 2009 and 2008, respectively. The deferred tax assets are primarily the result of net operating losses. A valuation allowance has been established for the full amount of the deferred tax assets, since it is more likely than not that these will not be realized.

The Company recorded expense of $0.1 million, $0.2 million and $0.2 million related to Philadelphia net profits tax for each of the years ended December 31, 2009, 2008 and 2007, respectively.

The aggregate cost basis and depreciated basis for federal income tax purposes of the Company s investment in real estate was approximately $3,921.7 million and $3,091.2 million, respectively, at December 31, 2009, and $3,864.4 million and $3,108.1 million, respectively, at December 31, 2008.

Derivatives

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

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

The anticipated transaction to be hedged must expose the Company to interest rate risk, and the hedging instrument must reduce the exposure and meet the requirements for hedge accounting. The Company must formally designate the instrument as a hedge and document and assess the effectiveness of the hedge at inception and on a quarterly basis. Interest rate hedges that are designated as cash flow hedges hedge future cash outflows on debt.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Operating Partnership Unit Redemptions

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

Share-Based Compensation Expense

The Company follows the expense recognition provisions of required accounting provisions, which require all share based payments to employees, including grants of employee stock options and restricted shares, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period.

Earnings Per Share

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

Recent Accounting Pronouncements

Accounting for Convertible Debt

Effective January 1, 2009, the Company adopted new accounting requirements that clarify the accounting treatment for convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement). The Company s Exchangeable Notes are within the scope of these new accounting requirements. The Company was required to retrospectively apply these new accounting requirements to prior periods, and recorded the impact of its adoption of these new accounting requirements as of the issuance date of the Exchangeable Notes (May 2007). Pursuant to these new accounting requirements, the value assigned to the debt component is the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The Company determined that the fair value of the conversion feature at the date of the issuance was $19.3 million, which was recorded as an increase to capital contributed in excess of par and a decrease to Exchangeable Notes in the accompanying consolidated balance sheets at inception. The amount that was recorded for the conversion feature is not amortized. The debt discount is amortized as additional non-cash interest expense over the period during which the debt is expected to be outstanding. The unamortized discount on the Exchangeable Notes was $4.7 million and $11.4 million as of December 31, 2009 and December 31, 2008, respectively, following repurchases of some outstanding Exchangeable Notes by the Company in 2009 and 2008. The implementation of this new accounting requirement resulted in an increase to interest expense and net loss of $3.5 million and $2.1 million from amounts previously reported for the years ended December 31, 2008 and December 31, 2007, respectively.

Business Combinations

Effective January 1, 2009, the Company prospectively adopted new accounting requirements relating to business combinations. These new accounting requirements apply to all transactions or other events in which an entity obtains control of one or more businesses, including those combinations achieved without the transfer of consideration. These new accounting requirements expand the scope of the acquisition method of accounting to include all business combinations and require an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree at their fair values as of the acquisition date. Additionally, these new accounting requirements change the way entities account for business combinations achieved in stages by requiring the identifiable assets and liabilities to be measured at fair value at the acquisition date. These new accounting requirements require entities to directly expense transaction costs. The adoption of these new accounting requirements did not have a material effect on the Company s consolidated financial statements.

Classification and Measurement of Redeemable Securities

Effective January 1, 2009, the Company adopted new accounting requirements related to the classification and measurement of redeemable securities. The ownership interests in a subsidiary that are held by owners other than the parent are noncontrolling interests (which were previously reported on the consolidated balance sheet as Minority interest). Under these new accounting requirements, noncontrolling interest represents the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Under these new accounting requirements, such

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company s equity. Consolidated statements of equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances. On the consolidated statements of operations, revenue, expenses and net loss are reported at the consolidated amounts including both the amounts attributable to the Company and to noncontrolling interests. However, in accordance with these new accounting requirements, securities (including those considered to be noncontrolling interests) that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery in its own shares, the Company considered the guidance relating to the accounting for derivative financial instruments indexed to, and potentially settled in, a company s own stock, to evaluate whether such provisions are solely within the Company s control. The Company has concluded that for its noncontrolling interests that allow for redemption in either cash or Company shares, all such provisions are solely within its control. As a result of its evaluation, the Company has determined that all of its noncontrolling interests qualify as permanent equity, and therefore are not subject to the classification and measurement provisions of these new accounting requirements.

Also as a result of the adoption of these new accounting requirements, the statement of operations captions entitled Income (loss) before minority interest, Minority interest and Net income (loss) are now entitled Net income (loss), Net income (loss) attributable to noncontrolling interest and Net income (loss) attributable to PREIT, respectively.

As of December 31, 2009, the Company has a 99.8% interest in Bala Cynwyd Associates, L.P. (BCA) and an option to purchase the remaining interests, as described in note 3. BCA owns an office building. The Company has consolidated the assets, liabilities and results of operations of BCA in the Company s consolidated financial statements. The interest that was not owned by the Company is reflected in noncontrolling interest on the accompanying consolidated balance sheets of $15,000 and $3.8 million as of December 31, 2009 and December 31, 2008, respectively.

Disclosures about Derivative Instruments and Hedging Activities

Effective January 1, 2009, the Company adopted new accounting requirements relating to disclosures about derivative instruments and hedging activities, which require enhanced disclosures about an entity s derivative and hedging activities and thereby improve the transparency of financial reporting (see note 5 for the Company s disclosure relating to its derivative activities).

Accounting for Transfers of Financial Assets

On January 1, 2010, the Company adopted new accounting requirements relating to accounting for transfers of financial assets. The recognition and measurement provisions of these new accounting requirements are applied to transfers that occur on or after the effective date. The disclosure provisions of these new accounting requirements are applied to transfers that occurred both before and after the effective date of the new accounting requirements. The adoption of these new accounting requirements did not have a material effect on the Company s consolidated financial statements.

Variable Interest Entities

On January 1, 2010, the Company adopted new accounting requirements relating to variable interest entities. These new accounting requirements amend the existing accounting guidance as follows: a) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity, identifying the primary beneficiary of a variable interest entity; b) to require ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, rather than only when specific events occur; c) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest; d) to amend certain guidance for determining whether an entity is a variable interest entity; e) to add an additional reconsideration event when changes in facts and circumstances pertinent to a variable interest entity occur; f) to eliminate the exception for troubled debt restructuring regarding variable interest entity reconsideration; and g) to require advanced disclosures that will provide users of financial

statements with more transparent information about an enterprise s involvement in a variable interest entity. The adoption of these new accounting requirements did not have a material effect on the Company s consolidated financial statements.

FASB Accounting Standards Codification

Effective September 30, 2009, the Company adopted the Financial Accounting Standards Board Accounting Standards Codification (ASC). The ASC is the sole source of authoritative United States GAAP for interim and annual periods ending after September 15, 2009, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. The adoption of the ASC did not have a significant effect on the Company s consolidated financial statements.

2. REAL ESTATE ACTIVITIES

Investments in real estate as of December 31, 2009 and 2008 were comprised of the following:

(in thousands of dollars)	As of December 31, 2009	2008
Buildings, improvements and construction in progress	$ 3,129,354	$ 3,140,371
Land, including land held for development	554,959	567,677
Total investments in real estate	3,684,313	3,708,048
Accumulated depreciation	(623,309)	(516,832)
Net investments in real estate	$ 3,061,004	$ 3,191,216

Impairment of assets and abandoned project costs

During the years ended December 31, 2009 and December 31, 2008, the Company recorded asset impairment charges and abandoned project costs totaling $75.0 million and $28.9 million, respectively, which are included in Impairment of assets and abandoned project costs in the consolidated statement of operations. Details about the assets that were written down are as follows:

(in thousands of dollars)	As of December 31, 2009	2008	2007
Orlando Fashion Square	$ 62,700	$	$
Springhills	11,484		
Monroe Marketplace	70		
White Clay Point		11,799	
Sunrise Plaza		7,027	
Goodwill		4,648	
Valley View Downs		3,032	
Predevelopment costs		936	
Land held for development		150	
Abandoned project costs	758	1,297	1,531
Total	$ 75,012	$ 28,889	$ 1,531

2009 Impairments

During 2009, Orlando Fashion Square experienced significant decreases in non-anchor occupancy and net operating income as a result of unfavorable economic conditions in the Orlando market combined with negative trends in the retail sector. The occupancy declines resulted from store closings from bankrupt and underperforming tenants. Net operating income at this property was also impacted by an increase in the number of tenants paying a percentage of their sales in lieu of minimum rent combined with declining tenant sales. As a result of these conditions, in connection with the preparation of the Company s 2010 business plan and budgets, management determined that its estimate of future cash flows, net of estimated capital expenditures, to be generated by the property were less than

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

the carrying value of the property. As a result, the Company determined that the property was impaired and a write down of $62.7 million to the property s estimated fair value of $40.2 million was necessary.

Springhills is a mixed use ground-up development project located in Gainesville, Florida. During the fourth quarter of 2009, in connection with the Company s 2010 business planning process, which included a strategic review of its future development projects, management determined that the development plans for Springhills were uncertain. Consequently, the Company recorded an impairment loss of $11.5 million, to write down the carrying amount of the project to the estimated fair value of $22.0 million.

In May 2009, the Company sold an outparcel and related land improvements containing an operating restaurant at Monroe Marketplace in Selinsgrove, Pennsylvania for $0.9 million. The Company recorded an asset impairment charge of $0.1 million immediately prior to this transaction because the sales price of the parcel was less than the carrying value of the parcel.

2008 Impairments

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

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

In September 2008, the Company entered into an Amendment Agreement with Valley View Downs, LP (Valley View) and Centaur Pennsylvania, LLC (Centaur) with respect to the development of a proposed harness racetrack and casino in western Pennsylvania (the Project) to be owned and operated by Valley View. The Amendment Agreement amends the terms of the Binding Memorandum of Understanding dated October 7, 2004, as amended by Amendment No. 1 to the Binding Memorandum of Understanding dated October 1, 2007, among the Company, Valley View and Centaur (the MOU).

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

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

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

million related to this project, representing the costs incurred related to this project to date.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

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

2009 Dispositions

In May 2009, the Company sold an outparcel and related land improvements containing an operating restaurant at Monroe Marketplace in Selinsgrove, Pennsylvania for $0.9 million. The Company recorded an asset impairment charge of $0.1 million immediately prior to this transaction. No gain or loss was recorded from this sale.

In June 2009, the Company sold a land parcel adjacent to Woodland Mall in Grand Rapids, Michigan for $2.7 million. The parcel contained a department store that was subject to a ground lease. The Company recorded a gain of $0.2 million from this sale.

In June 2009, the Company sold two outparcels and related improvements adjacent to North Hanover Mall in Hanover, Pennsylvania for $2.0 million. The Company recorded a gain of $1.4 million from this sale.

In August 2009, the Company sold Crest Plaza in Allentown, Pennsylvania for $15.8 million. The Company recorded a gain of $3.4 million from this sale.

In October 2009, the Company sold two outparcels and related improvements adjacent to Monroe Marketplace in Selinsgrove, Pennsylvania for $2.8 million. No gain or loss was recorded from this sale.

In October 2009, the Company sold a parcel and related land improvements at Pitney Road Plaza in Lancaster, Pennsylvania for $10.2 million. The parcel contained a home improvement store that was subject to a ground lease. The Company recorded a gain of $2.7 million from this sale.

In October 2009, the Company sold a controlling interest in Northeast Tower Center in Philadelphia, Pennsylvania for $30.4 million. The Company recorded a gain of $6.1 million from this sale. In connection with the sale, the Company repaid the mortgage loan associated with the Northeast Tower Center, with a balance of $20.0 million at closing.

2007 Dispositions

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

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

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

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

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

Discontinued Operations

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

The following table summarizes revenue and expense information for the Company s discontinued operations:

	For the year ended December 31,		
(In thousands of dollars)	**2009**	**2008**	**2007**
Real estate revenue	$ 4,665	$ 6,086	$ 7,055
Expenses:			
Operating expenses	(1,182)	(1,431)	(2,260)
Depreciation and amortization	(1,176)	(1,571)	(1,768)
Interest expense	(104)	(535)	(954)
Total expenses	(2,462)	(3,537)	(4,982)
Operating results from discontinued operations	2,203	2,549	2,073
Gains on sales of discontinued operations	9,503		6,699
Income from discontinued operations	$ 11,706	$ 2,549	$ 8,772

2009 and 2008 Acquisitions

In January 2008, the Company entered into an agreement under which it acquired a 0.1% general partnership interest and a 49.8% limited partnership interest in Bala Cynwyd Associates, L.P. (BCA), and an option to purchase the remaining partnership interests in BCA in two closings in the second quarter of 2009 and the second quarter of 2010. BCA is the owner of One Cherry Hill Plaza, an office building located within the boundaries of the Company s Cherry Hill Mall in Cherry Hill, New Jersey. The Company acquired its interests in BCA for $3.9 million in cash paid at the first closing in February 2008. See note 11 for further discussion. The Company has consolidated BCA for financial reporting purposes. In June 2009, the Company acquired an additional 49.9% ownership interest.

In July 2008, the Company acquired a parcel in Lancaster, Pennsylvania for $8.0 million plus customary closing costs. This property was developed by the Company and is currently operating as Pitney Road Plaza.

In July 2008, the Company acquired land previously subject to ground lease at Wiregrass Commons in Dothan, Alabama for $3.2 million.

2007 Acquisitions

In August 2007, the Company purchased a 116 acre land parcel in Monroe Township, Pennsylvania for $5.5 million. The Company had previously acquired an aggregate of approximately 10 acres on adjacent parcels. This property was developed by the Company and is currently operating as Monroe Marketplace.

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

Development Activities

As of December 31, 2009 and 2008, the Company had capitalized $228.3 million and $421.2 million, respectively, related to construction and development activities. Of the balance at December 31, 2009, $2.1 million is included in Deferred costs and other assets in the accompanying consolidated balance sheets, $215.2 million is included in Construction in progress, $1.7 million is included in Investments in partnerships, at equity, and $9.3 million is included in Land held for development. The Company had $0.4 million of deposits on land purchase contracts at December 31, 2009, of which $0.1 million was nonrefundable.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in the Company s unconsolidated partnerships as of December 31, 2009 and 2008:

(in thousands of dollars)	As of December 31, 2009	2008
ASSETS:		
Investments in real estate, at cost:		
Retail properties	$ 393,197	$ 390,341
Construction in progress	3,602	4,402
Total investments in real estate	396,799	394,743
Accumulated depreciation	(116,313)	(102,804)
Net investments in real estate	280,486	291,939
Cash and cash equivalents	5,856	5,887
Deferred costs and other assets, net	21,254	22,848
Total assets	307,596	320,674
LIABILITIES AND PARTNERS EQUITY (DEFICIT):		
Mortgage loans	365,565	370,206
Other liabilities	13,858	18,308
Total liabilities	379,423	388,514
Net deficit	(71,827)	(67,840)
Partners share	(37,382)	(33,659)
Company s share	(34,445)	(34,181)
Excess investment[1]	13,733	16,143
Advances	4,635	5,414
Net investments and advances	$ (16,077)	$ (12,624)
Investment in partnerships, at equity	$ 32,694	$ 36,164
Distributions in excess of partnership investments	(48,771)	(48,788)
Net investments and advances	$ (16,077)	$ (12,624)

(1)

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

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Mortgage loans, which are secured by eight of the partnership properties (including one property under development), are due in installments over various terms extending to the year 2018, with interest rates ranging from 0.88% to 8.02% and a weighted-average interest rate of 3.41% at December 31, 2009. The liability under each mortgage loan is limited to the partnership that owns the particular property. The Company s proportionate share, based on its respective partnership interest, of principal payments due in the next five years and thereafter is as follows:

(in thousands of dollars)	Company s Proportionate Share			
For the Year Ended December 31,	Principal Amortization	Balloon Payments	Total	Property Total
2010	$ 1,750	$ 112,562	$ 114,312	$ 228,687
2011	1,260	56,745	58,005	116,073
2012	246	3,708	3,954	9,795
2013	195		195	391
2014	209		209	419
2015 and thereafter	953	4,148	5,101	10,200
	$ 4,613	$ 177,163	$ 181,776	$ 365,565

The following table summarizes the Company s share of equity in income of partnerships for the years ended December 31, 2009, 2008 and 2007:

(in thousands of dollars)	For the Year Ended December 31, 2009	2008	2007
Real estate revenue	$ 74,693	$ 75,168	$ 70,116
Expenses:			
Operating expenses	(24,737)	(23,112)	(22,095)
Interest expense	(13,851)	(21,226)	(24,472)
Depreciation and amortization	(15,489)	(16,458)	(13,763)
Total expenses	(54,077)	(60,796)	(60,330)
Net income	20,616	14,372	9,786
Less: Partners share	(10,206)	(7,154)	(4,893)
Company s share	10,410	7,218	4,893
Amortization of excess investment	(308)	(165)	(256)
Equity in income of partnerships	$ 10,102	$ 7,053	$ 4,637

Financing Activity

In October 2008, the unconsolidated partnership that owns Whitehall Mall in Allentown, Pennsylvania entered into a new $12.4 million, 10-year mortgage loan with a fixed interest rate of 7.00% to replace the prior mortgage loan on the property. The Company s interest in the unconsolidated partnership is 50%.

In July 2006, Lehigh Valley Associates entered into a $150.0 million mortgage loan that is secured by Lehigh Valley Mall. The Company owns an indirect 50% partnership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only were required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 0.56%. There were three separate one-year extension options. In August 2007, June 2008 and July 2009, the partnership that owns the mall exercised the first, second and third one-year extension options, respectively.

In October 2009, Red Rose Commons Associates, LP entered into a $23.9 million mortgage loan that is secured by Red Rose Commons in Lancaster, Pennsylvania. The Company owns an indirect 50% partnership interest in this entity. The mortgage loan has an initial term of two years, during which monthly payments of interest only are required. The loan bears interest at a variable rate of LIBOR plus 4.00%, with a floor of 6.00% per annum. The proceeds from the mortgage loan were used to repay the previous mortgage loan that was secured by Red Rose Commons, of which the Company s share was $12.3 million.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

In November 2005, the unconsolidated partnership that owns Springfield Mall in Springfield, Pennsylvania entered into a $76.5 million mortgage loan that is secured by Springfield Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of two years, during which interest only payments were required. The mortgage loan bears interest at an annual rate equal to, at the election of the Company, LIBOR plus 1.10% or at a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%. There were three separate one-year extension options, provided that there is no event of default and provided that certain other conditions are met, as required under the loan agreement. In November 2007, the partnership that owns the mall exercised the first extension option, in November 2008, the partnership exercised the second extension option and made a principal payment of $4.2 million, and in December 2009, the partnership exercised the third extension option.

4. FINANCING ACTIVITY

Amended, Restated and Consolidated Senior Secured Credit Agreement

On March 11, 2010, PREIT Associates and PRI (collectively, the Borrower), together with PR Gallery I Limited Partnership (GLP) and Keystone Philadelphia Properties, L.P. (KPP), two other subsidiaries of the Company, entered into an Amended, Restated and Consolidated Senior Secured Credit Agreement comprised of 1) an aggregate $520.0 million term loan made up of a $436.0 million term loan (Term Loan A) to PALP and PRI and a separate $84.0 million term loan (Term Loan B) to the other two subsidiaries (collectively, the 2010 Term Loan) and 2) a $150.0 million revolving line of credit (the Revolving Facility, and, together with the 2010 Term Loan, the 2010 Credit Facility) with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto.

The 2010 Credit Facility replaces the previously existing $500.0 million unsecured revolving credit facility, as amended (the 2003 Credit Facility), and a $170.0 million unsecured term loan (the 2008 Term Loan) that had been scheduled to mature on March 20, 2010. All capitalized terms used and not otherwise defined in the description of the 2010 Credit Facility have the meanings ascribed to such terms in the 2010 Credit Facility.

The initial term of the 2010 Credit Facility is three years, and the Borrower has the right to one 12-month extension of the initial maturity date, subject to certain conditions and to the payment of an extension fee of 0.50% of the then outstanding Commitments.

The Company used the initial proceeds from the 2010 Credit Facility to repay outstanding balances under the 2003 Credit Facility and 2008 Term Loan. At closing, the $520.0 million 2010 Term Loan was fully outstanding and $70.0 million was outstanding under the Revolving Facility.

Amounts borrowed under the 2010 Credit Facility bear interest at a rate between 4.00% and 4.90% per annum, depending on the Company s leverage, in excess of LIBOR, with no floor. The initial rate in effect was 4.90% per annum in excess of LIBOR. In determining the Company s leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 8.00%. The unused portion of the Revolving Facility is subject to a fee of 0.40% per annum.

The obligations under Term Loan A are secured by first priority mortgages on 20 of the Company s properties and a second lien on one property, and the obligations under Term Loan B are secured by first priority leasehold mortgages on the properties ground leased by GLP and KPP (the Gallery Properties). The foregoing properties constitute substantially all of our previously unencumbered retail properties.

PREIT and certain of its subsidiaries that are not otherwise prevented from doing so serve as guarantors for funds borrowed under the 2010 Credit Facility.

The aggregate amount of the lender Revolving Commitments and 2010 Term Loan under the 2010 Credit Facility is required to be reduced by $33.0 million by March 11, 2011, by a cumulative total of $66.0 million by March 11, 2012 and by a cumulative total of $100.0 million by March 11, 2013 (if the Company exercises its right to extend the Termination Date), including all payments (except payments pertaining to the

Release Price of a Collateral Property) resulting in permanent reduction of the aggregate amount of the Revolving Commitments and 2010 Term Loan.

The 2010 Credit Facility contains provisions regarding the application of proceeds from a Capital Event. A Capital Event is any event by which the Borrower raises additional capital, whether through an asset sale, joint venture, additional secured or unsecured debt, issuance of equity, or from excess proceeds after payment of a Release Price. Capital Events do not include Refinance Events or other specified events. After payment of interest and required distributions, the Remaining Capital Event Proceeds will generally be applied in the following order:

If the Facility Debt Yield is less than 11.00% or the Corporate Debt Yield is less than 10.00%, Remaining Capital Event Proceeds will be allocated 25% to pay down the Revolving Facility (repayments of the Revolving Facility generally may be reborrowed) and 75% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full) or, if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder of that 25% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full). So long as the Facility Debt Yield is greater than or equal to 11.00% and the Corporate Debt Yield is greater than or equal to 10.00% and each will remain so immediately after the Capital Event, and so long as either the Facility Debt Yield is less than 12.00% or the Corporate Debt Yield is less than 10.25% and will remain so immediately after the Capital Event, the Remaining Capital Event Proceeds will be allocated 75% to pay down the Revolving Facility and 25% to pay down and permanently reduce Term Loan A (or Term Loan B if Term Loan A is repaid in full) or, if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder of that 75% for general corporate purposes. So long as the Facility Debt Yield is greater than or equal to 12.00% and the Corporate Debt Yield is greater than or equal to 10.25% and each will remain so immediately after the Capital Event, Remaining Capital Event Proceeds will be applied 100% to pay down the Revolving Facility, or if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder for general corporate purposes. Remaining proceeds from a Capital Event or Refinance Event relating to Cherry Hill Mall will be used to pay down the Revolving Facility and may be reborrowed only to repay the Company s unsecured indebtedness.

The 2010 Credit Facility also contains provisions regarding the application of proceeds from a Refinance Event. A Refinance Event is any event by which the Company raises additional capital from refinancing of secured debt encumbering an existing asset, not including collateral for the 2010 Credit Facility. The proceeds in excess of the amount required to retire an existing secured debt will be applied, after payment of interest, to pay down the Revolving Facility, or if the Revolving Facility balance is or would become $0 as a result of such payment, to pay down the Revolving Facility in full and to use any remainder for general corporate purposes. Remaining proceeds from a Capital Event or Refinancing Event relating to the Gallery Properties may only be used to pay down and permanently reduce Term Loan B (or, if the outstanding balance on Term Loan B is or would become $0 as a result such payment, to pay down Term Loan B in full and to pay any remainder in accordance with the preceding paragraph).

A Collateral Property will be released as security upon a sale or refinancing, subject to payment of the Release Price and the absence of any default or Event of Default. If, after release of a Collateral Property (and giving pro forma effect thereto), the Facility Debt Yield will be less than 11.00%, the Release Price will be the Minimum Release Price plus an amount equal to the lesser of (A) the amount that, when paid and applied to the 2010 Term Loan, would result in a Facility Debt Yield equal to 11.00% and (B) the amount by which the greater of (1) 100.0% of net cash proceeds and (2) 90.0% of the gross sales proceeds exceeds the Minimum Release Price. The Minimum Release Price is 110% (120% if, after the Release, there will be fewer than 10 Collateral Properties) multiplied by the proportion that the value of the property to be released bears to the aggregate value of all of the Collateral Properties on the closing date of the 2010 Credit Facility, multiplied by the amount of the then Revolving Commitments plus the aggregate principal amount then outstanding under the 2010 Term Loan. In general, upon release of a Collateral Property, the post-release Facility Debt Yield must be greater than or equal to the pre-release Facility Debt Yield. Release payments must be used to pay down and permanently reduce the amount of the Term Loan.

The 2010 Credit Facility contains affirmative and negative covenants customarily found in facilities of this type, including, without limitation, requirements that the Company maintain, on a consolidated basis: (1) minimum Tangible Net Worth of not less than $483.1 million, minus non-cash impairment charges with respect to the Properties recorded in the quarter ended December 31, 2009, plus 75% of the Net Proceeds of all Equity Issuances effected at any time after September 30, 2009; (2) maximum ratio of Total Liabilities to Gross Asset Value of 0.75:1; (3) minimum ratio of EBITDA to Interest Expense of 1.60:1; (4) minimum ratio of Adjusted EBITDA to Fixed Charges of 1.35:1; (5) maximum Investments in unimproved real estate and predevelopment costs not in excess of 3.0% of Gross Asset Value; (6) maximum Investments in Persons other than Subsidiaries, Consolidated Affiliates and Unconsolidated Affiliates not in excess of 1.0% of Gross Asset Value; (7) maximum Investments in Indebtedness secured by Mortgages in favor of the Company, the Borrower or any other Subsidiary not in excess of 1.0% of Gross Asset Value on the basis of cost; (8) the aggregate value of the Investments and the other items subject to the preceding clauses (5) through (7) shall not exceed 5.0% of Gross Asset Value; (9) maximum Investments in Consolidation Exempt Entities not in excess of 20.0% of Gross Asset Value; (10) a maximum Gross Asset Value attributable to any one Property not in excess of 15.0% of Gross Asset Value; (11) maximum Projects Under Development not in excess of 10.0% of Gross Asset Value; (12) maximum Floating Rate Indebtedness in an aggregate outstanding principal amount not in excess of one-third of all Indebtedness of the Company, its Subsidiaries, its Consolidated Affiliates and its Unconsolidated Affiliates; (13) minimum Corporate Debt Yield of 9.50%, provided that such Corporate Debt Yield may be less than 9.50% for one period of two consecutive fiscal quarters, but may not be less than 9.25%; and (14) Distributions may not exceed 110% of REIT taxable income for a fiscal year, but if the Corporate Debt Yield exceeds 10.00%, then the aggregate amount of Distributions may not exceed the greater of 75% of FFO and 110% of REIT Taxable Income (unless necessary for the Company to retain its status as a REIT), and if a Facility Debt

Yield of 11.00% and a Corporate Debt Yield of 10.00% are achieved and continuing, there are no limits on Distributions under the 2010 Credit Facility, so long as no Default or Event of Default would result from making such Distributions. The Company is required to maintain its status as a REIT at all times.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

2003 Credit Facility

As of December 31, 2009, the amounts borrowed under the Company s $500.0 million 2003 Credit Facility bore interest at a rate between 0.95% and 2.00% per annum over LIBOR based on leverage. In determining leverage, the capitalization rate used to calculate Gross Asset Value was 7.50%. In the determination of the Company s Gross Asset Value, when the Company completes the redevelopment or development of a property and it was Placed in Service, the amount of Construction in Progress of such property included in Gross Asset Value was gradually reduced over a four quarter period. The availability of funds under the 2003 Credit Facility was subject to compliance with financial and other covenants and agreements. In October 2008, the Company exercised an option to extend the term of the 2003 Credit Facility to March 2010

As of December 31, 2009 and 2008, $486.0 million and $400.0 million, respectively, were outstanding under the 2003 Credit Facility. The Company pledged $3.0 million under the 2003 Credit Facility as collateral for letters of credit, and the unused portion of the 2003 Credit Facility that was available to the Company was $11.0 million at December 31, 2009. The weighted average effective interest rate based on amounts borrowed was 2.13%, 4.63% and 6.81% for the years ended December 31, 2009, 2008, and 2007, respectively. The weighted average interest rate on outstanding 2003 Credit Facility borrowings at December 31, 2009 was 2.24%.

Exchangeable Notes

In May 2007, the Company, through its Operating Partnership, completed the sale of $287.5 million aggregate principal amount of its Exchangeable Notes. The net proceeds from the offering of $281.0 million were used for the repayment of indebtedness under the Company s 2003 Credit Facility, the cost of the capped call transactions related to the issuance of the Exchangeable Notes, and for other general corporate purposes. The Exchangeable Notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. Interest payments are due on June 1 and December 1 of each year, began on December 1, 2007, and will continue until the maturity date of June 1, 2012. The Operating Partnership s obligations under the Exchangeable Notes are fully and unconditionally guaranteed by the Company.

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

In connection with the offering of the Exchangeable Notes, the Company and the Operating Partnership entered into capped call transactions with affiliates of the initial purchasers of the Exchangeable Notes. These agreements

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

effectively increase the exchange price of the Exchangeable Notes to $63.74 per share. The cost of these agreements of $12.6 million was recorded in the equity section of the Company s consolidated balance sheet.

In 2009 and 2008, the Company repurchased $104.6 million and $46.0 million, respectively, in aggregate principal amount of its Exchangeable Notes in privately negotiated transactions in exchange for an aggregate $47.2 million in cash and 4.3 million common shares, with a fair market value of $25.0 million, in 2009, and for $15.9 million in cash in 2008. The Company terminated an equivalent notional amount of the related capped calls in 2009 and 2008.

The Company recorded gains on extinguishment of debt of $27.0 million and $27.1 million in 2009 and 2008, respectively. In connection with the repurchases, the Company retired an aggregate of $5.4 million and $3.0 million in 2009 and 2008, respectively, of deferred financing costs and debt discount.

As of December 31, 2009, $136.9 million in aggregate principal amount of Exchangeable Notes (excluding debt discount of $4.7 million) remained outstanding.

Interest expense related to the Exchangeable Notes was $8.6 million, $11.5 million and $7.4 million (excluding the non-cash amortization of debt discount of $2.8 million and $3.5 million and $2.1 million) for the years ended December 31, 2009, 2008 and 2007, respectively. The Exchangeable Notes had an effective interest rate of 5.85% for the year ended December 31, 2009, including the impact of debt discount amortization.

2008 Term Loan

In September 2008, the Company borrowed an aggregate of $170.0 million under a Term Loan with a stated interest rate of 2.50% above LIBOR (the 2008 Term Loan). Also in 2008, the Company swapped the floating interest rate on the 2008 Term Loan balance to a weighted average effective fixed rate of 5.86%. The weighted average interest rate on amounts outstanding at December 31, 2009 was 5.29%.

Interest under the 2008 Term Loan was payable monthly in arrears, and no principal payment was due until the end of the term. The 2008 Term Loan contained lender yield protection provisions. The Company and certain of its subsidiaries were guarantors of the obligations arising under the 2008 Term Loan.

The 2008 Term Loan contains customary representations and affirmative and negative covenants, including compliance with certain financial covenants that are materially the same as those contained in the Company s 2003 Credit Facility.

Mortgage Loans

Twenty-eight mortgage loans, which are secured by 26 of the Company s consolidated properties, are due in installments over various terms extending to the year 2017. Seventeen of the mortgage loans bear interest at a fixed rate and nine of the mortgage loans bear interest at variable rates that have been swapped to or capped at a fixed rate. These 26 mortgage loans have interest rates that range from 4.95% to 7.61% and had a weighted average interest rate of 5.80% at December 31, 2009. The Company also has two properties with variable interest rate mortgage loans that had a weighted average interest rate of 3.07% at December 31, 2009. The weighted average interest rate of all consolidated mortgage loans was 5.79%. Principal payments are due as follows:

(in thousands of dollars)

For the Year Ended December 31,	Principal Amortization	Balloon Payments[1]	Total

2010	$ 19,988	$ 63,165	$ 83,153
2011	20,682	99,000	119,682
2012	18,893	374,971	393,864
2013	13,413	402,723	416,136
2014	11,753	96,900	108,653
2015 and thereafter	12,733	640,156	652,889
	$ 97,462	$ 1,676,915	$ 1,774,377
Debt Premium			2,744
			$ 1,777,121

(1) Due dates for certain of the balloon payments set forth in this table may be extended pursuant to the terms of the respective loan agreements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

The estimated fair values of mortgage loans based on year-end interest rates and market conditions at December 31, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans	$ 1,777.1 million	$ 1,549.6 million	$ 1,760.3 million	$ 1,681.7 million

The mortgage loans contain various affirmative and negative covenants customarily found in loans such as these. As of December 31, 2009, the Company was in compliance with all of these covenants.

Mortgage Loan Activity

The following table presents the mortgage loans that the Company entered into beginning January 1, 2007:

Financing Date	Property	Amount Financed or Extended (in millions of dollars):	Stated Rate	Hedged Rate	Maturity
2007 Activity:					
May	The Mall at Prince Georges[1]	$ 150.0	5.51% fixed	NA	June 2017
2008 Activity:					
January	Cherry Hill Mall[2][3]	55.0	5.51% fixed	NA	October 2012
February	One Cherry Hill Plaza[1][4]	5.6	LIBOR plus 1.30%	NA	August 2010
May	Creekview Center[5]	20.0	LIBOR plus 2.15%	5.56%	June 2010
June	Christiana Center[1][6]	45.0	LIBOR plus 1.85%	5.87%	June 2011
July	Paxton Towne Centre[1][6]	54.0	LIBOR plus 2.00%	5.84%	July 2011
September	Patrick Henry Mall[7]	97.0	6.34% fixed	NA	October 2015
September	Jacksonville Mall[1][8]	56.3	LIBOR plus 2.10%	5.83%	September 2013
September	Logan Valley Mall[1][8][9]	68.0	LIBOR plus 2.10%	5.79%	September 2013
September	Wyoming Valley Mall[1][8][10]	65.0	LIBOR plus 2.25%	5.85%	September 2013
November	Francis Scott Key Mall[1]	55.0	LIBOR plus 2.35%	5.25%	December 2013
November	Viewmont Mall[1]	48.0	LIBOR plus 2.35%	5.25%	December 2013
December	Exton Square Mall[11]	70.0	7.50% fixed	NA	January 2014
2009 Activity:					
March	New River Valley Center[12]	16.3	LIBOR plus 3.25%	5.75%	March 2012
June	Pitney Road Plaza[13]	6.4	LIBOR plus 2.50%	NA	June 2010
June	Lycoming Mall[14]	33.0	6.84% fixed	NA	June 2014
September	Northeast Tower Center[15]	20.0	LIBOR plus 2.75%	NA	September 2011
2010 Activity:					
January	New River Valley Mall[1][16]	30.0	LIBOR plus 4.50%	6.33%	January 2013
March	Lycoming Mall[14]	2.5	6.84% fixed	NA	June 2014

(1) Interest only.
(2) Supplemental financing with a maturity date that coincides with the existing first mortgage loan.
(3) First 24 payments are interest only followed by principal and interest payments based on a 360-month amortization schedule.
(4) In February 2008, the Company entered into this mortgage loan as a result of the acquisition of BCA. The original maturity date of the mortgage loan was August 2009, with two separate one year extension options. In June 2009, the Company made a principal payment of $2.4 million and exercised the first extension option.
(5) The mortgage loan has a term of two years and three one-year extension options.
(6) The mortgage loan has a term of three years and two one-year extension options.
(7) Payments based on 25 year amortization schedule, with a balloon payment in October 2015.
(8) The mortgage loan has a term of five years and two one-year extension options.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

(9) The mortgage loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.10%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.

(10) The mortgage loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.25%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.

(11) Payments based on 30 year amortization schedule, with balloon payment in January 2014. The mortgage loan has a term of three years and two one-year extension options.

(12) Mortgage loan has a term of three years and two one-year extension options.

(13) The Company has made draws of $6.4 million and a one time principal payment of $1.9 million in connection with the sale of a parcel at the property. The loan has one six-month extension option during the construction period. The Company has the option to convert the loan to a two-year loan at the end of the construction period.

(14) The mortgage loan agreement provides for a maximum loan amount of $38.0 million. The initial amount of the mortgage loan was $28.0 million. The Company took additional draws of $5.0 million in October 2009 and $2.5 million in March 2010.

(15) In October 2009, the Company repaid the $20.0 million mortgage loan on Northeast Tower Center in connection with the sale of a controlling interest in this property.

(16) The mortgage loan has a three year term and one one-year extension option. $25.0 million of the principal amount was swapped to a fixed rate of 6.33%

In July 2008, the Company repaid a $12.7 million mortgage loan on Crossroads Mall in Beckley, West Virginia, using funds from its 2003 Credit Facility and available working capital.

In December 2008, the Company repaid a $93.0 million mortgage loan on Exton Square Mall in Exton, Pennsylvania using $70.0 million from a new mortgage loan on the property, the Company s 2003 Credit Facility, the Company s 2008 Term Loan and available working capital.

In January 2009, the Company repaid a $15.7 million mortgage loan on Palmer Park Mall in Easton, Pennsylvania using funds from its 2003 Credit Facility and 2008 Term Loan.

In June 2009, the Company made a principal payment of $2.4 million and exercised the first one-year renewal option on the mortgage loan on the One Cherry Hill Plaza office building in Cherry Hill, New Jersey.

In October 2009, the Company repaid the $20.0 million mortgage loan on Northeast Tower Center, a power center located in Philadelphia, Pennsylvania, in connection with a sale of a controlling interest in the property.

In November 2009, the Company entered into a one-year extension of a $34.3 million mortgage loan secured by Valley View Mall in La Crosse, Wisconsin, with two additional six-month extension options.

REMIC

In September 2008, the Company used the proceeds from four mortgage loans totaling $286.3 million, and borrowings under its 2003 Credit Facility and 2008 Term Loan to repay the Company s $400.9 million, 15 property real estate mortgage investment conduit (the REMIC) in full. In connection with this repayment, the 15 malls were released from the liens under the REMIC, and four of these malls were used to secure new mortgage loan financings. The Company assumed the REMIC in connection with its 2003 merger with Crown American Realty Trust.

5. DERIVATIVES

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

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Cash Flow Hedges of Interest Rate Risk

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate swaps and caps as part of its interest rate risk management strategy. The Company s outstanding derivatives have been designated as cash flow hedges. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in Accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To the extent these instruments are ineffective as cash flow hedges, changes in the fair value of these instruments are recorded in Interest expense, net. The Company recognizes all derivatives at fair value as either assets or liabilities in the accompanying consolidated balance sheets. The Company s derivative assets and liabilities are recorded in Fair value of derivative instruments. During the year ended December 31, 2009, the Company s derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

During the years ended December 31, 2009 and 2007, the Company recorded no amounts associated with hedge ineffectiveness in earnings.

In 2008, the Company recorded a gain due to hedge ineffectiveness of $46,000 and a net loss of $358,000 due to hedge ineffectiveness. Also, for several of these swaps, the result of this change in estimates was that the swaps were no longer designated as cash flow hedges since they no longer met the requirements for hedge accounting. The Company recorded a net gain of $2.4 million in 2008 in connection with these swaps. The net gain represents the change in the fair market value of the swaps from the date of de-designation to the date when the swaps were either settled or redesignated.

Amounts reported in Accumulated other comprehensive income (loss) that are related to derivatives will be reclassified to Interest expense, net as interest payments are made on the Company s debt. During the next twelve months, the Company estimates that $14.2 million would be reclassified as an increase to interest expense in connection with derivatives.

The following table summarizes the terms and fair values of the Company s interest rate swap and cap derivative instruments at December 31, 2009 and December 31, 2008. The notional amounts at December 31, 2009 and 2008 provide an indication of the extent of the Company s involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

Notional Value	Fair Value at December 31, 2009[1]	Fair Value at December 31, 2008[1]	Balance Sheet Location	Interest Rate [2]	Maturity Date
Interest Rate Swaps					
$25.0 million	$ (0.2) million	$ (0.6) million	Fair Value of derivative liabilities	2.86%	March 20, 2010
$75.0 million	(0.4) million	(1.7) million	Fair Value of derivative liabilities	2.83%	March 20, 2010
$30.0 million	(0.2) million	(0.7) million	Fair Value of derivative liabilities	2.79%	March 20, 2010
$40.0 million	(0.2) million	(0.8) million	Fair Value of derivative liabilities	2.65%	March 22, 2010
$20.0 million	(0.2) million	(0.7) million	Fair Value of derivative liabilities	3.41%	June 1, 2010
$45.0 million	(1.9) million	(2.8) million	Fair Value of derivative liabilities	4.02%	June 19, 2011
$54.0 million	(2.2) million	(3.3) million	Fair Value of derivative liabilities	3.84%	July 25, 2011
$65.0 million	(2.5) million	(4.7) million	Fair Value of derivative liabilities	3.60%	September 9, 2013
$68.0 million	(2.8) million	(5.2) million	Fair Value of derivative liabilities	3.69%	September 9, 2013
$56.3 million	(2.4) million	(4.4) million	Fair Value of derivative liabilities	3.73%	September 9, 2013
$55.0 million	(0.9) million	(2.3) million	Fair Value of derivative liabilities	2.90%	November 29, 2013
$48.0 million	(0.7) million	(2.0) million	Fair Value of derivative liabilities	2.90%	November 29, 2013
Interest Rate Cap					
$16.3 million	0.0 million	N/A	Fair Value of derivative liabilities	2.50%	April 2, 2012

$	(14.6) million	$	(29.2) million

(1) As of December 31, 2009 and December 31, 2008, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. As of December 31, 2009 and December 31, 2008, the Company does not have any significant fair value measurements using significant unobservable inputs (Level 3).

(2) Interest rate does not include the spread on the designated debt.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

The table below presents the effect of the Company s derivative financial instruments on the statement of operations as of December 31, 2009.

Derivatives in cash flow hedging relationships	Year ended December 31, 2009	Statement of Operations location
Interest rate products		
Loss recognized in Other Comprehensive Income on derivatives (effective portion)	$(2.5) million	N/A
Gain reclassified from Accumulated Other Comprehensive Income (loss) into income (effective portion)	$18.6 million	Interest Expense
Gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	$	Interest Expense

Credit-Risk-Related Contingent Features

The Company has agreements with some of its derivative counterparties that contain a provision pursuant to which, if the entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of December 31, 2009, the Company was not in default on any of its derivative obligations.

The Company has an agreement with a derivative counterparty that incorporates the loan covenant provisions of the Company s loan agreement with a lender affiliated with the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of December 31, 2009, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk, related to these agreements was $14.6 million. As of December 31, 2009, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions as of December 31, 2009, it would have been required to settle its obligations under the agreements at their termination value (including accrued interest) of $18.4 million. The Company has not breached any of the provisions as of December 31, 2009.

Forward Starting Interest Rate Swaps

During the year ended December 31, 2008, the Company cash settled all of its forward-starting interest rate swaps with an aggregate notional amount of $400.0 million. The Company paid an aggregate of $16.5 million in cash to settle these swaps. The swaps were settled in anticipation of the Company s issuance of long-term debt. Accumulated other comprehensive loss as of December 31, 2009 includes a net loss of $13.2 million relating to forward-starting swaps that the Company cash settled that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

Interest Rate Swaps and Cap

As of December 31, 2009, the Company had entered into 12 interest rate swap agreements and one interest rate cap agreement that have a weighted average interest rate of 3.29% on a notional amount of $597.5 million maturing on various dates through November 2013.

The Company entered into these interest rate swap agreements and the cap agreement in order to hedge the interest payments associated with the Company s 2008 issuances of variable interest rate long-term debt. The Company assessed the effectiveness of these swap agreements and cap agreement as hedges at inception and on December 31,

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

2009 and considered these swap agreements and cap agreement to be highly effective cash flow hedges. The Company s interest rate swap agreements and cap agreement will be settled in cash.

6. PREFERRED SHARE REDEMPTION

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

7. BENEFIT PLANS

401(k) Plan

The Company maintains a 401(k) Plan (the Plan) in which substantially all of its employees are eligible to participate. The Plan permits eligible participants, as defined in the Plan agreement, to defer up to 15% of their compensation, and the Company, at its discretion, may match a specified percentage of the employees contributions. The Company s and its employees contributions are fully vested, as defined in the Plan agreement. The Company s contributions to the Plan were $1.0 million for each of the years ended December 31, 2009, 2008 and 2007.

Supplemental Retirement Plans

The Company maintains Supplemental Retirement Plans (the Supplemental Plans) covering certain senior management employees. Expenses recorded by the Company under the provisions of the Supplemental Plans were $0.6 million for the each of years ended December 31, 2009, 2008 and 2007.

Employee Share Purchase Plans

The Company maintains share purchase plans through which the Company s employees may purchase common shares at a 15% discount to the fair market value (as defined therein). In the years ended December 31, 2009, 2008, and 2007, approximately 102,000, 45,000 and 20,000 shares, respectively, were purchased for total consideration of $0.4 million, $0.7 million and $0.6 million for the years ended December 31, 2009, 2008, and 2007, respectively. The Company recorded an expense of $0.1 million, $0.1 million and $0.2 million in the years ended December 31, 2009, 2008 and 2007, respectively, related to the share purchase plans.

Performance Incentive Unit Program

In 2009, the Company made awards of Performance Incentive Units (PIUs) that are subject to market based vesting. The PIUs vest in equal installments over a three year period if specified total return to shareholders goals (as defined in the PIU plan) established at the time of the award are met each year. Payments under the PIU program, if any, will be made in cash. The amount of the payment is variable based on the total return to the Company s shareholders relative to the total return achieved for an index of real estate investment trusts, as defined on the PIU plan. The Company records compensation expense for the PIU program pro rata over the vesting period based on estimates of future cash payments under the plan. The Company issued 221,022 PIUs in 2009 with an initial value of $0.8 million, and recorded compensation expense relating to these awards of $0.4 million.

8. COMMON SHARE REPURCHASE PROGRAM

In December 2007, the Company s Board of Trustees authorized a program to repurchase up to $100.0 million of the Company s common shares through solicited or unsolicited transactions in the open market or in privately negotiated or other transactions from January 1, 2008 until December 31, 2009, subject to the Company s authority to terminate the program earlier. Previously, in October 2005, the Company s Board of Trustees had authorized a program to repurchase up to $100.0 million of the Company s common shares. That program expired by its terms on December 31, 2007. The 2007 program was in effect until the end of 2009, when it expired according to its terms.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Repurchased shares are treated as authorized but unissued shares. The Company accounts for the purchase price of the shares repurchased as a reduction of equity and allocates the purchase price between retained earnings, shares of beneficial interest and capital contributed in excess of par as required. The Company did not repurchase any shares in 2009 or 2008. In 2007, the Company repurchased 152,500 shares at an average price of $35.67, or an aggregate purchase price of $5.4 million.

9. SHARE BASED COMPENSATION

Share Based Compensation Plans

As of December 31, 2009, there were two share based compensation plans under which the Company continues to make awards: its 2003 Equity Incentive Plan and its 2008 Restricted Share Plan for Non-Employee Trustees, which was approved in 2007. Previously, the Company maintained five other plans pursuant to which it granted awards of restricted shares or options. Certain restricted shares and certain options granted under these previous plans remain subject to restrictions or outstanding and exercisable, respectively. In addition, the Company previously maintained a plan pursuant to which it granted options to its non-employee trustees.

The Company recognizes expense on share based payments by employees valuing all share based payments at their fair value on the date of grant, and by expensing them over the applicable vesting period.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded aggregate compensation expense for share based awards of $7.7 million, $9.4 million and $8.0 million, respectively, in connection with the equity programs described below. There was no income tax benefit recognized in the income statement for share based compensation arrangements. The Company capitalized compensation costs related to share based awards of $0.3 million in 2009, and $0.4 million in each of 2008 and 2007.

2003 Equity Incentive Plan

Subject to any future adjustments for share splits and similar events, the total remaining number of common shares that may be issued under the Company s 2003 Equity Incentive Plan (pursuant to options, restricted shares or otherwise) was 801,209 as of December 31, 2009. The share based awards described below in this section were all made under the 2003 Equity Incentive Plan.

Restricted Shares

In 2009, 2008 and 2007, the Company made grants of restricted shares subject to time based vesting. The aggregate fair value of the restricted shares that the Company granted to its employees in 2009, 2008 and 2007 was $2.9 million, $5.0 million, and $6.0 million, respectively. As of December 31, 2009, there was $7.3 million of total unrecognized compensation cost related to unvested share based compensation arrangements granted under the 2003 Equity Incentive Plan. The cost is expected to be recognized over a weighted average period of 0.9 years. The total fair value of shares vested during the years ended December 31, 2009, 2008, and 2007 was $5.4 million, $4.4 million, and $4.0 million, respectively.

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

(in thousands of dollars) Year ended December 31,	Future Compensation Expense
2010	$ 3,887
2011	2,984

2012		463
Total	$	7,334

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

A summary of the status of the Company s unvested restricted shares as of December 31, 2009 and changes during the year ended December 31, 2009 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	532,930	$ 35.62
Shares granted	777,274	3.85
Shares vested	(167,396)	34.05
Shares forfeited	(65,328)	35.82
Unvested at December 31, 2009	1,077,480	$ 12.93

Restricted Shares Subject to Market Based Vesting

In 2003, 2004, and 2005, the Company granted restricted shares that were subject to market based vesting. These restricted shares would have vested in equal installments over a five-year period if specified total return to shareholders (as defined in the grant) goals established at the time of the grant were met in each year. If the goal was not met in any year, the awards provided for excess amounts of total return to shareholders in a prior or subsequent year to be carried forward or carried back to the year in which the goals were not met. No market based restricted shares vested in 2007 or 2008 since the Company s total return to shareholders was less than the annual total return to shareholders goal for the 2003 and 2004 awards. The annual total return to shareholders goal for the market based restricted shares awarded in 2005 was set at the greater of (i) 110% of the total return to shareholders of a specified index of real estate investment trusts for each of the five years or (ii) the dividends paid by the Company during the year, expressed as a percentage of the market value of a share, as of the beginning of the year, plus 1%. The Company granted a total of 67,147 restricted shares subject to market based vesting in 2005, of which 10,056 shares were previously issued and 2,450 were forfeited in connection with employee severance arrangements. The Company met the return criteria for the portion relating to 2009, and thus 10,927 shares vested in February 2010. Because the vesting of the market based restricted shares granted in 2005 relating to the years 2005-2008 depended upon the achievement of certain total return to shareholders goals by December 31, 2009, and because the Company did not meet this objective by that date, the remaining 43,714 shares granted in 2005 have been forfeited. However, as of December 31, 2009, these shares had not yet been characterized as shares forfeited in the table above pending a formal determination by the compensation committee of the Board of Trustees of the Company in accordance with the terms of the 2003 Equity Incentive Plan, which typically occurs early in the following year. Recipients were entitled to receive an amount equal to the dividends on the shares prior to vesting. The grant date fair value of these awards was determined using a Monte Carlo simulation probabilistic valuation model and was $29.00 for 2005. For purposes of the simulation, the Company assumed an expected quarterly total return to shareholders of a specified index of real estate investment trusts of 2.2%, a standard deviation of 6.4%, and a 0.92 correlation of the Company s total return to shareholders to that of the specified index of real estate investment trusts for the 2005 awards. Compensation cost relating to these market based vesting awards was recorded ratably over the five-year period. The Company recorded $0.4 million, $0.6 million, and $1.1 million of compensation expense related to market based restricted shares for the years ended December 31, 2009, 2008 and 2007, respectively.

Restricted Shares Subject to Time Based Vesting

The Company makes grants of restricted shares subject to time based vesting. The awarded shares vest over periods of two to five years, typically in equal annual installments, as long as the recipient is an employee of the Company on the vesting date. For all grantees, the shares generally vest immediately upon death or disability. Recipients are entitled to receive an amount equal to the dividends on the shares prior to vesting. The Company granted a total of 757,273, 195,285 and 132,430 restricted shares subject to time based vesting to its employees in 2009, 2008 and 2007, respectively. The weighted average grant date fair value of time based restricted shares, which were determined based on the average of the high and low sales price of a common share on the date of grant, was $3.81 per share in 2009, $25.74 per share in 2008 and $45.11 per share in 2007. Compensation cost relating to time based restricted shares awards is recorded ratably over the respective vesting periods. The Company recorded $5.0 million, $5.1 million and $4.3 million of compensation expense related to time based restricted shares for the years ended December 31, 2009, 2008 and 2007, respectively.

On March 12, 2010, the Company granted 474,088 time based restricted shares to employees with a grant date fair value of $5.5 million. The shares awarded in 2010 vest over periods of two to three years, in annual installments.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Restricted Share Unit Program

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

Compensation cost relating to these RSU awards is being expensed over the applicable three year vesting period. The Company granted a total of 122,113 RSUs in 2008 and 67,430 RSUs in 2007. However, as described above, recipients of RSUs only earn common shares if the Company s total return to shareholders for the applicable Measurement Period exceeds certain percentiles of the Index REITs, and as such, none of the RSUs were earned as of December 31, 2009. The Company recorded $2.1 million and $2.6 million of compensation expense related to the RSU Programs for the years ended December 31, 2009 and 2008, respectively. The Company will record future compensation expense related to the existing awards under the RSU Programs as follows:

(in thousands of dollars) **Year ended December 31,**	**Future Compensation Expense**
2010	$ 1,045
2011	122
Total	$ 1,167

On March 12, 2010, the Company granted 317,749 restricted share units to employees. The 2010 RSUs have a three year measurement period which ends on December 31, 2012. The aggregate fair value of the 2010 RSU award has yet to be determined.

Outperformance Program

In January 2005, the Company s Board of Trustees approved the 2005-2008 Outperformance Program (OPP), a performance-based incentive compensation program that was designed to pay a bonus (in the form of common shares) if the Company s total return to shareholders (as defined in the OPP) exceeded certain thresholds over a four year measurement period beginning on January 1, 2005. The grant date fair value of the OPP awards in 2005 was determined using a Monte Carlo simulation probabilistic valuation model and the aggregate value of $3.7 million was expensed over the four year vesting period. For purposes of the simulation, the Company assumed an expected quarterly total return to shareholders of a specified index of real estate investment trusts of 2.2%, a standard deviation of 6.2% and a 0.92 correlation of the Company s total return to shareholders to that of the specified index of real estate investment trusts. The Compensation Committee of the Company s Board of Trustees determined that the Company s total return to shareholders for the measurement period of January 1, 2005 through December 31, 2008 did not exceed the thresholds set forth in the OPP, and thus no shares were awarded under the OPP. The Company recorded $0.8 million of compensation expense related to the OPP in each of the years ended December 31, 2008 and 2007, respectively.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Service Awards

In 2009, 2008 and 2007, the Company issued 1,725, 1,275, and 1,475 shares, respectively, without restrictions to non-officer employees as service awards. The aggregate fair value of the awards of $8,000, $25,000, and $60,000 in each of the years ended December 31, 2009, 2008 and 2007, respectively, was recorded as compensation expense.

Restricted Share Plan For Non-Employee Trustees

The 2008 Restricted Share Plan for Non-Employee Trustees approved in 2007 provides for the granting of restricted share awards to non-employee trustees of the Company. In 2009 and 2008, the Company made grants of restricted shares to non-employee trustees under the 2008 Restricted Share Plan. In 2007, the Company made grants of restricted shares to non-employee trustees subject to time based vesting under a predecessor plan. The aggregate fair value of the restricted shares that the Company granted to its non-employee trustees in 2009, 2008 and 2007 was $0.1 million, $0.2 million, and $0.4 million, respectively. The Company recorded $0.2 million, $0.3 million and $0.4 million of compensation expense related to time based vesting of non-employee trustee restricted share awards in 2009, 2008 and 2007, respectively. As of December 31, 2009, there was $0.1 million of total unrecognized compensation cost related to unvested restricted share grants to non-employee trustees. The cost is expected to be recognized over a weighted average period of 0.5 years. The total fair value of shares granted to non-employee trustees that vested was $0.3 million in the year ended December 31, 2009, and $0.4 million during each of the years ended December 31, 2008 and 2007. There were 31,000 shares available for grant to non-employee trustees at December 31, 2009. The Company will record future compensation expense in connection with the vesting of existing non-employee trustee restricted share awards as follows:

(in thousands of dollars) **Year ended December 31,**	**Future Compensation Expense**
2010	$ 124
2011	21
Total	$ 145

F-37

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

Options Outstanding

Options are typically granted with an exercise price equal to the fair market value of the underlying shares on the date of the grant. The options vest and are exercisable over periods determined by the Company, but in no event later than ten years from the grant date. The Company has six plans under which it has historically granted options. The Company has not granted any options to its employees since 2003, and, since that date, has only made option grants to non-employee trustees on the date they became trustees in accordance with an existing policy. Cash received from options exercised in 2008 and 2007 was $0.6 million and $5.0 million, respectively. No options were exercised in 2009. The total intrinsic value of stock options exercised for the years ended December 31, 2008 and 2007 was $46,000, and $1.9 million, respectively. The following table presents the changes in the number of options outstanding from January 1, 2007 through December 31, 2009:

	Weighted Average Exercise Price/ Total	2003 Equity Incentive Plan	1999 Equity Incentive Plan	1998 Stock Option Plan	1997 Stock Option Plan	1990 Employees Plan	1990 Non-Employee Trustee Plan
Options outstanding at January 1, 2007	$ 23.46	14,085	100,000	28,050	190,000	500	41,000
Options exercised	$ 25.33	(1,792)		(2,500)	(190,000)	(500)	(3,000)
Options forfeited							
Options outstanding at December 31, 2007	175,843	12,293	100,000	25,550			38,000
Options exercised	$ 23.85			(25,550)			
Options forfeited	24.50						(1,000)
Options outstanding at December 31, 2008[1]	149,293	12,293	100,000				37,000
Options granted	$ 5.41	5,000					
Options exercised							
Options forfeited	20.00						(2,000)
Options outstanding at December 31, 2009[1]	152,293	17,293	100,000				35,000
Outstanding options							
Average exercise price per share	$ 20.42	$ 25.06	$ 17.84	$	$	$	$ 25.49
Aggregate exercise price[2]	$ 3,109	$ 433	$ 1,784	$	$	$	$ 892
Intrinsic value of options outstanding[2]	$		$	$	$	$	$
Exercisable options outstanding at December 31, 2009[3]							
Options outstanding at December 31, 2009	147,293	12,293	100,000				35,000
Average exercise price per share	$ 20.93	$ 33.05	$ 17.84	$	$	$	$ 25.49

Aggregate exercise price(2)	$ 3,082	$ 406	$ 1,784	$	$	$	$ 892
Intrinsic value of options outstanding(2)	$	$	$	$	$	$	$

(1) As of December 31, 2009, an aggregate of exercisable and unexercisable options to purchase 152,293 shares of beneficial interest with a weighted average remaining contractual life of 1.74 years (weighted average exercise price of $20.42 per share and an aggregate price of $3.1 million) were outstanding.

(2) Amounts in thousands of dollars.

(3) As of December 31, 2009, an aggregate of exercisable options to purchase 147,293 shares of beneficial interest with a weighted average exercise price of $20.93 per share and an aggregate exercise price of $3.1 million were outstanding.

F-38

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

The following table summarizes information relating to all options outstanding as of December 31, 2009:

Range of Exercise Prices (Per Share)	Options Outstanding as of December 31, 2009 Number of Shares	Weighted Average Exercise Price (Per Share)	Options Exercisable as of December 31, 2009 Number of Shares	Weighted Average Exercise Price (Per Share)	Weighted Average Remaining Life (years)
$5.00-$12.99	5,000	$ 5.41		$	
$13.00-$18.99	108,503	$ 17.75	108,503	$ 17.75	0.8
$19.00-$28.99	18,790	$ 23.63	18,790	$ 23.63	2.2
$29.00-$38.99	20,000	$ 35.62	20,000	$ 35.62	4.6

In 2009, in accordance with an existing policy, the Company granted 5,000 options to a non-employee trustee.

No options were granted in 2008 or 2007.

10. LEASES

As Lessor

The Company s retail properties are leased to tenants under operating leases with various expiration dates ranging through 2099. Future minimum rent under noncancelable operating leases with terms greater than one year are as follows:

(in thousands of dollars) For the Year Ended December 31,	
2010	$ 271,305
2011	236,467
2012	197,038
2013	173,913
2014	154,482
2015 and thereafter	586,413
	$ 1,619,618

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

As Lessee

Assets recorded under capital leases, primarily office and mall equipment, are capitalized using interest rates appropriate at the inception of each lease. The Company also has operating leases for its corporate office space (see note 11) and for various computer, office and mall equipment. Furthermore, the Company is the lessee under third-party ground leases for portions of the land at seven of its properties (Crossroads Mall, Voorhees Town Center, Exton Square Mall, The Gallery at Market East, Orlando Fashion Square, Plymouth Meeting Mall and Uniontown Mall). Total amounts expensed relating to leases were $4.8 million for each of the years ended December 31, 2009, 2008 and 2007, respectively.

The Company accounts for ground rent and capital lease expense on a straight line basis. Minimum future lease payments due in each of the next five years and thereafter are as follows:

(in thousands of dollars) For the Year Ended December 31,	**Operating Leases**	**Ground Leases**
2010	$ 2,263	$ 992
2011	2,089	992
2012	1,874	853
2013	1,626	724
2014	1,263	736
2015 and thereafter		49,146
	$ 9,115	$ 53,443

The Company had assets of $0.2 million and $0.4 million (net of accumulated depreciation of $3.5 million and $3.3 million, respectively) recorded under capital leases as of December 31, 2009 and 2008, respectively.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

11. RELATED PARTY TRANSACTIONS

General

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services was $0.9 million, $1.1 million and $0.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, $0.2 million was due from the property-owning partnerships to PRI.

The Company leases its principal executive offices from Bellevue Associates (the Landlord), an entity in which certain officers/trustees of the Company have an interest. Total rent expense under this lease was $1.6 million for each of the years ended December 31, 2009, 2008, and 2007. Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. The Company has the option to renew the lease for up to two additional five-year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, the Company has the right on one occasion at any time during the seventh lease year (2011) to terminate the office lease upon the satisfaction of certain conditions. Effective June 1, 2004, the Company s base rent was $1.4 million per year during the first five years of the office lease and is $1.5 million per year during the second five years.

The Company uses an airplane in which Ronald Rubin owns a fractional interest. The Company did not incur any expenses in 2009 for this service. The Company paid $174,000 and $35,000 in the years ended December 31, 2008 and 2007, respectively, for flight time used by employees exclusively for Company-related business.

As of December 31, 2009, nine officers of the Company had employment agreements with terms of one year that renew automatically for additional one-year terms. Their 2008 employment agreements provided for aggregate base compensation for the year ended December 31, 2009 of $3.4 million, subject to increases as approved by the Company s Board compensation committee in future years, as well as additional incentive compensation.

See Tax Protection Agreements in note 12.

Bala Cynwyd Associates, L.P.

On January 22, 2008, PREIT, PREIT Associates, L.P. and another subsidiary of PREIT entered into a Contribution Agreement with Bala Cynwyd Associates, L.P. (BCA), City Line Associates (CLA), Ronald Rubin, George F. Rubin, Joseph F. Coradino, and two other individuals to acquire all of the partnership interests in BCA. BCA had also entered into a tax deferred exchange agreement with the owners of One Cherry Hill Plaza, an office building located within the boundaries of PREIT s Cherry Hill Mall (the Office Building), to acquire title to the Office Building in exchange for an office building located in Bala Cynwyd, Pennsylvania owned by BCA.

Ronald Rubin, George F. Rubin, Joseph F. Coradino and two other individuals owned 100% of CLA, which in turn directly or indirectly owned 100% of BCA immediately prior to the initial closing. Each of Ronald Rubin and George F. Rubin owned 40.53% of the partnership interests in CLA, and Joseph F. Coradino owned 3.16% of the partnership interests. At the initial closing under the Contribution Agreement in 2008 and in exchange for a 0.1% general partner interest and 49.8% limited partner interest in BCA, PREIT made a capital contribution to BCA in an approximate amount of $3.93 million.

In June 2009, a second closing occurred pursuant to a put/call arrangement, at which time PREIT acquired an additional 49.9% of the limited partner interest in BCA for approximately $199,000 in cash and 140,745 units of Class A limited partnership interest (OP Units) in PREIT Associates, L.P. A third closing is expected to occur pursuant to a put/call arrangement approximately one year after the second closing, at which time the remaining interest in BCA will be acquired by PREIT in exchange for approximately $1,000 in cash and 564 OP Units. None of

Ronald Rubin, George F. Rubin or Joseph F. Coradino received any consideration from PREIT in connection with the first closing. At the second closing, Ronald Rubin received 60,208 OP Units, George Rubin received 60,208 OP Units, and Joseph Coradino received 4,691 OP Units.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

The acquisition of the Office Building was financed in part by a mortgage loan in the principal amount of $8.0 million.

In accordance with PREIT s related party transactions policy, a special committee consisting exclusively of independent members of PREIT s Board of Trustees considered and approved the terms of the transaction. The approval was subject to final approval of PREIT s Board of Trustees, and the disinterested members of PREIT s Board of Trustees approved the transaction.

12. COMMITMENTS AND CONTINGENCIES

Development and Redevelopment Activities

In connection with its current ground-up development and its redevelopment projects, the Company has made contractual commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of December 31, 2009, the remainder to be paid (excluding amounts already accrued) against such contractual and other commitments was $2.3 million, which is expected to be financed through the 2010 Credit Facility or through various other capital sources.

Legal Actions

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

Environmental

The Company is aware of certain environmental matters at some of its properties, including ground water contamination and the presence of asbestos containing materials. The Company has, in the past, performed remediation of such environmental matters, and is not aware of any significant remaining potential liability relating to these environmental matters. The Company may be required in the future to perform testing relating to these matters. The Company does not expect these matters to have any significant impact on its liquidity or results of operations. However, the Company can provide no assurance that the amounts reserved will be adequate to cover further environmental costs. The Company has insurance coverage for certain environmental claims up to $10.0 million per occurrence and up to $20.0 million in the aggregate.

Tax Protection Agreements

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

The Company has agreed to provide tax protection related to its acquisition of Cumberland Mall Associates in 2005 and New Castle Associates in 2003 and 2004 to the prior owners of Cumberland Mall Associates and New Castle Associates, respectively, for a period of eight years following the respective closings. Ronald Rubin and George F. Rubin are beneficiaries of these tax protection agreements.

The Company did not enter into any other guarantees or tax protection agreements in connection with its merger, acquisition or disposition activities in 2009, 2008 and 2007.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following presents a summary of the unaudited quarterly financial information for the years ended December 31, 2009 and 2008:

For the Year Ended December 31, 2009

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter[5]	Total
Revenue from continuing operations	$ 110,676	$ 111,816	$ 111,759	$ 125,802	$ 460,053
Revenue from discontinued operations	$ 1,533	$ 1,494	$ 1,326	$ 312	$ 4,665
Income from discontinued operations[4]	$ 760	$ 744	$ 4,086	$ 6,116	$ 11,706
Net loss [1][2]	$ (11,524)	$ (4,217)	$ (10,118)	$ (64,232)	$ (90,091)
Net loss attributable to PREIT[1][2][3][4]	$ (10,982)	$ (4,021)	$ (9,641)	$ (61,094)	$ (85,738)
Income from discontinued operations per share basic	$ 0.02	$ 0.02	$ 0.10	$ 0.15	$ 0.29
Income from discontinued operations per share diluted	$ 0.02	$ 0.02	$ 0.10	$ 0.15	$ 0.29
Net loss per share basic	$ (0.28)	$ (0.11)	$ (0.23)	$ (1.41)	$ (2.11)
Net loss per share diluted	$ (0.28)	$ (0.11)	$ (0.23)	$ (1.41)	$ (2.11)

For the Year Ended December 31, 2008 (as revised)

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter[5]	Total
Revenue from continuing operations	$ 112,674	$ 111,048	$ 112,178	$ 127,594	$ 463,494
Revenue from discontinued operations	$ 1,534	$ 1,522	$ 1,507	$ 1,524	$ 6,087
Income from discontinued operations	$ 556	$ 600	$ 647	$ 746	$ 2,549
Net loss[1][2]	$ (3,050)	$ (3,841)	$ (8,861)	$ (604)	$ (16,356)
Net loss attributable to PREIT[1][2]	$ (2,936)	$ (3,714)	$ (8,463)	$ (653)	$ (15,766)
Income from discontinued operations per share basic	$ 0.01	$ 0.02	$ 0.02	$ 0.02	$ 0.07
Income from discontinued operations per share diluted	$ 0.01	$ 0.02	$ 0.02	$ 0.02	$ 0.07
Net loss per share basic	$ (0.08)	$ (0.10)	$ (0.23)	$ (0.02)	$ (0.43)
Net loss per share diluted	$ (0.08)	$ (0.10)	$ (0.23)	$ (0.02)	$ (0.43)

(1) Includes gain on extinguishment of debt (before noncontrolling interest) of approximately $27.0 million and $27.1 million for 2009 and 2008, respectively. Gain on extinguishment of debt (before noncontrolling interest) was $1.3 million, $8.5 million, $4.2 million and $13.1 million for 1st Quarter 2009, 2nd Quarter 2009, 3rd, Quarter 2009 and 4th Quarter 2009, respectively. Gain on extinguishment of debt (before noncontrolling interest) was $27.1 million, for 4th Quarter 2008.

(2) Includes impairment of assets of approximately $74.3 million (before noncontrolling interest) (4th Quarter 2009) and $27.6 million (before noncontrolling interest) (4th Quarter 2008).

(3) Includes gains on sales of interests in real estate of approximately $1.7 million (before noncontrolling interest) (2nd Quarter 2009) and $2.6 million (before noncontrolling interest) (4th Quarter 2009).

(4) Includes gains on sales of discontinued operations of approximately $3.4 million (before noncontrolling interest) (3rd Quarter 2009) and $6.1 million (before noncontrolling interest) (4th Quarter 2009).

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

Table of Contents

SCHEDULE III

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

INVESTMENTS IN REAL ESTATE

As of December 31, 2009

(in thousands of dollars)	Initial Cost of Land	Initial Cost of Building & Improvements	Cost of Improvements Net of Retirements	Balance of Land	Balance of Building & Improvements	Current Accumulated Depreciation Balance	Current Encumbrance	Date of Construction/ Acquisition	Life of Depreciation
Retail Properties:									
Beaver Valley Mall	$ 10,822	$ 42,877	$ 15,550	$ 10,550	$ 58,699	$ (16,871)	$ 44,011	2002	30
Capital City Mall	11,642	65,575	17,846	11,642	83,421	(18,057)	49,633	2003	40
Chambersburg Mall	9,502	26,218	6,350	9,642	32,428	(6,862)	0	2003	40
Cherry Hill Mall	29,938	185,611	229,592	48,610	396,531	(54,781)	248,185	2003	40
Christiana Center	12,829	27,041	1,110	12,829	28,151	(11,077)	45,000	1998	40
Commons at Magnolia	1,132	3,407	7,444	2,357	9,626	(3,974)	0	1999	40
Creekview	1,380	15,290	2,434	1,380	17,724	(7,437)	19,568	1998	40
Crossroads Mall	5,054	22,496	7,444	5,627	29,367	(7,623)	0	2003	40
Cumberland Mall	8,711	43,889	9,940	9,856	52,684	(7,159)	43,756	2005	40
Dartmouth Mall	7,015	28,328	26,940	7,015	55,268	(24,494)	62,587	1998	40
Exton Square Mall	21,460	121,326	4,312	21,460	125,638	(23,161)	69,429	2003	40
Francis Scott Key Mall	9,786	47,526	22,718	9,987	70,043	(14,076)	55,000	2003	40
Gadsden Mall	8,842	42,681	8,948	8,842	51,629	(7,607)	0	2005	40
The Gallery at Market East	6,781	95,599	67,115	10,710	158,785	(14,838)	0	2003	40
Jacksonville Mall	9,974	47,802	20,570	9,974	68,372	(13,470)	56,265	2003	40
Logan Valley Mall	13,267	68,449	14,161	13,267	82,610	(19,674)	68,000	2003	40
Lycoming Mall	10,274	43,440	23,449	10,802	66,361	(13,070)	32,847	2003	40
Magnolia Mall	9,279	44,165	34,607	15,204	72,847	(22,028)	61,811	1998	40
Moorestown Mall	11,368	62,995	17,859	11,368	80,854	(22,549)	57,446	2003	N/A
Monroe Marketplace	12,308	11,250	29,343	11,556	41,345	(1,782)	0	2006	40
New River Valley Center	4,411	21,436	896	4,411	22,332	(2,197)	16,056	2005	40
New River Valley Mall	4,751	22,808	30,188	4,848	52,899	(12,094)	0	2003	40
Nittany Mall	6,064	30,283	7,070	5,146	38,271	(7,853)	0	2003	40
North Hanover Mall	4,565	20,990	30,024	4,492	51,087	(6,934)	0	2003	40
Orlando Fashion Square	0	94,734	(56,644)	0	38,090	(2,148)	0	2004	40
Palmer Park Mall	3,747	18,805	12,048	3,747	30,853	(11,406)	0	2003	40
Patrick Henry Mall	16,075	86,643	38,286	16,397	124,607	(27,130)	95,076	2003	40
Paxton Towne Centre	15,719	36,438	4,636	15,719	41,074	(14,370)	54,000	1998	40
Phillipsburg Mall	7,633	38,093	7,743	7,791	45,678	(9,187)	0	2003	40
Plymouth Meeting Mall	29,265	58,388	73,415	29,953	131,115	(20,149)	0	2003	40
The Mall at Prince Georges	13,065	57,686	29,417	13,066	87,102	(29,646)	150,000	1998	40
South Mall	7,369	20,720	5,278	7,990	25,377	(5,128)	0	2003	40
Sunrise Plaza	12,885	16,114	1,020	11,471	18,548	(2,153)	0	2005	40
Uniontown Mall	0	30,761	8,021	0	38,782	(8,170)	0	2003	40
Valley Mall	13,187	60,658	17,812	13,193	78,464	(18,326)	87,975	2003	40
Valley View Mall	9,880	46,817	10,649	9,880	57,466	(11,049)	34,174	2003	40
Viewmont Mall	12,505	61,519	15,089	12,606	76,507	(14,333)	48,000	2003	40
Voorhees Town Center	2,506	7,807	71,681	8,760	73,234	(9,799)	0	2003	40
Washington Crown Center	5,460	27,136	7,770	5,580	34,786	(11,562)	0	2003	40
Willow Grove Park	26,748	131,189	55,173	37,193	175,917	(40,581)	150,855	2003	40
Wiregrass Commons	5,103	28,758	18,001	12,748	39,114	(7,268)	0	2003	40
Woodland Mall	35,540	124,504	25,372	17,577	167,839	(22,984)	155,227	2005	40
Wyoming Valley Mall	14,153	73,035	18,887	13,302	92,773	(18,219)	65,000	2003	40

Table of Contents

	Initial Cost of Land	Initial Cost of Building & Improvements	Cost of Improvements Net of Retirements	Balance of Land	Balance of Building & Improvements	Current Accumulated Depreciation Balance	Current Encumbrance	Date of Construction/ Acquisition	Life of Depreciation
Development Properties:									
White Clay Point	$ 31,000	$ 4	$ 743	$ 31,075	$ 672	$ 0	$ 0	2005	N/A
Pitney Road Plaza	8,165	805	(1,211)	3,781	3,978	(33)	4,476	2008	40
Springhills	21,555	9,827	(9,421)	21,555	406	0	0	2006	N/A
Investments In Real Estate	$ 522,715	$ 2,171,923	$ 989,675	$ 554,959	$ 3,129,354	$ (623,309)	$ 1,774,377		

S-2

Table of Contents

The aggregate cost basis and depreciated basis for federal income tax purposes of the Company s investment in real estate was approximately $3,921.7 million and $3,091.2 million, respectively, at December 31, 2009 and $3,864.4 million and $3,108.1 million, respectively, at December 31, 2008. The changes in total real estate and accumulated depreciation for the years ended December 31, 2009, 2008, and 2007 are as follows:

(in thousands of dollars)	**For the Year Ended December 31,**		
Total Real Estate Assets:	**2009**	**2008**	**2007**
Balance, beginning of year	$ 3,708,048	$ 3,367,294	$ 3,133,709
Acquisitions		23,453	14,727
Improvements and development	126,897	337,385	240,519
Impairment of assets	(87,989)	(19,215)	
Dispositions	(62,643)	(869)	(21,661)
Balance, end of year	$ 3,684,313	$ 3,708,048	$ 3,367,294
Investments in real estate	$ 3,684,313	$ 3,708,048	$ 3,367,294
Investments in real estate included in assets held-for-sale			
	$ 3,684,313	$ 3,708,048	$ 3,367,294

(in thousands of dollars)	**For the Year Ended December 31,**		
Accumulated Depreciation:	**2009**	**2008**	**2007**
Balance, beginning of year	$ 516,832	$ 401,502	$ 306,893
Depreciation expense	131,150	115,590	97,957
Impairment of assets	(13,735)		
Dispositions	(10,938)	(260)	(3,348)
Balance, end of year	$ 623,309	$ 516,832	$ 401,502

Exhibit Index

Exhibit Number	Description
10.58	Pennsylvania Real Estate Investment Trust 2008 restricted share Plan for Non-Employee Trustees.
21	Direct and Indirect Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP (Independent Registered Public Accounting Firm).
24	Power of Attorney (included on signature page to this Form 10-K).
31.1	Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.