

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
Form S-4/A  
October 01, 2003

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on October 1, 2003

Registration No. 333-107902

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 1**

TO

**FORM S-4**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**

(Exact Name of Registrant as Specified in Its Charter)

**Pennsylvania**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**6798**  
(Primary Standard Industrial  
Classification Code Number)

**23-6216339**  
(I.R.S. Employer  
Identification Number)

---

**The Bellevue  
200 S. Broad Street  
Philadelphia, Pennsylvania 19102  
(215) 875-0700**

(Address, Including Zip Code, and Telephone Number, Including  
Area Code, of Registrant's Principal Executive Offices)

**Bruce Goldman, Esq.**  
**Executive Vice President, General Counsel and Assistant Secretary**  
**Pennsylvania Real Estate Investment Trust**  
**The Bellevue, 200 S. Broad Street**  
**Philadelphia, Pennsylvania 19102**  
**(215) 875-0700**

(Name, Address, Including Zip Code, and Telephone  
Number, Including Area Code, of Agent For Service)

---

*Copies to:*

**J. Warren Gorrell, Jr., Esq.**  
**Stuart A. Barr, Esq.**  
**David P. Slotkin, Esq.**  
**Hogan & Hartson L.L.P.**  
**555 Thirteenth Street, N.W.**  
**Washington, D.C. 20004-1109**

**Howard A. Blum, Esq.**  
**Robert C. Juelke, Esq.**  
**Drinker Biddle & Reath LLP**  
**One Logan Square**  
**18<sup>th</sup> & Cherry Streets**  
**Philadelphia, PA 19103-6996**

**David L. DeNinno, Esq.**  
**Arlie R. Nogay, Esq.**  
**Reed Smith LLP**  
**435 Sixth Avenue**  
**Pittsburgh, PA 15219**  
**(412) 288-3131**

**M. James Spitzer, Jr., Esq.**  
**Spitzer & Feldman P.C.**  
**405 Park Avenue**  
**New York, NY 10022**  
**(212) 888-6680**

(202) 637-5600

(215) 988-2700

**Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.**

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

---

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CROWN AMERICAN REALTY TRUST

### MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

**After careful consideration, the boards of PREIT and Crown have unanimously determined that the merger of our two companies is in the best interests of our respective shareholders, and each board recommends that their respective common shareholders vote FOR approval of the merger agreement, the merger and the related transactions.**

The boards of both companies believe that the merger represents a strategic combination of two real estate organizations that will be in the best interests of their respective organizations and shareholders and will solidify PREIT's position as a leading shopping mall REIT in the Mid-Atlantic region. PREIT will own interests in 54 retail properties with approximately 33.4 million square feet in 14 states upon completion of the merger. The combined company is expected to have a significantly increased equity market capitalization which is expected to provide greater financial flexibility and liquidity. PREIT's board believes that PREIT can use its established franchise within the retail community, its long-standing relationship with retailers, its in-house construction and development personnel, its experienced leasing team, and its other operating strengths to create opportunities for long term growth and value-creation with respect to Crown's portfolio.

In the merger, Crown common shareholders will receive 0.3589 common shares of beneficial interest of PREIT for each outstanding common share of beneficial interest of Crown. Cash will be paid instead of issuing fractional shares. Because the portion of the merger consideration to be received in PREIT common shares is fixed, the value of the consideration to be received by Crown common shareholders in the merger will depend upon the market price of PREIT common shares at the time of the merger. PREIT common shares are traded on the New York Stock Exchange under the symbol "PEI." On September 30, 2003, PREIT common shares closed at \$33.45 per share. We estimate that, immediately following the completion of the merger, 33.7% of the outstanding PREIT common shares will be owned by former Crown common shareholders and the remaining 66.3% will be owned by persons who were PREIT common shareholders immediately prior to the completion of the merger, in each case considered on a fully diluted and as-converted basis.

In addition, each outstanding share of Crown 11.00% non-convertible, senior preferred shares will be converted into one newly created PREIT 11.00% non-convertible, senior preferred share, the terms of which shall be identical in all material respects.

We cannot complete the merger unless PREIT common shareholders and Crown common shareholders approve the merger agreement, the merger and the related transactions at the special meetings to be held by PREIT and Crown. Whether or not you plan to attend your special meeting, please take the time to vote by completing and mailing the enclosed proxy card. Alternatively, you may vote by telephone or through

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

the Internet as instructed on your proxy card.

In addition, the merger is subject to the receipt by PREIT of a specified number of affirmative votes of certain holders of units of limited partner interest in PREIT Associates, L.P. who are entitled to vote on the merger. The exact number of required votes, if any, will depend on the number of affirmative votes received from the holders of PREIT common shares at the PREIT special meeting. As of the record date for the PREIT special meeting, holders of over 68% of the units of limited partner interest in PREIT Associates, L.P. entitled to vote on the merger have agreed to vote their units in favor of the merger. This percentage of units will be sufficient to approve the merger under the terms of PREIT Associates, L.P.'s limited partnership agreement assuming the merger is also approved by the affirmative vote of a majority of the votes cast by PREIT shareholders at the PREIT special meeting. The merger is also subject to the approval of Crown Investments Trust and Crown American Investment Company, as limited partners of Crown American Properties, L.P., Crown's operating subsidiary. Crown Investments Trust and Crown American Investment Company also have agreed to vote in favor of the merger.

This document provides you with detailed information about your special meeting and the proposed merger. You can also get information from publicly available documents filed by both companies with the Securities and Exchange Commission. **We encourage you to read this entire document carefully, including the section entitled "Risk Factors" beginning on page 19.**

The dates, times and places of the special meetings are as follows:

**For PREIT:**  
November 11, 2003 at 11:00 a.m., local time  
Park Hyatt Philadelphia at the Bellevue  
200 South Broad Street  
Philadelphia, Pennsylvania

**For Crown:**  
November 11, 2003 at 11:00 a.m., local time  
The Johnstown Holiday Inn  
250 Market Street  
Johnstown, Pennsylvania

Ronald Rubin  
Chairman and Chief Executive Officer  
Pennsylvania Real Estate Investment Trust

Mark E. Pasquerilla  
Chairman, Chief Executive Officer and President  
Crown American Realty Trust

**EACH VOTE IS IMPORTANT. PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated October 1, 2003 and it is first being mailed on or about October 3, 2003.

This joint proxy statement/prospectus incorporates important business and financial information about our companies that is not included in or delivered with this document. If you are a shareholder of PREIT or a shareholder of Crown you can obtain any of the documents incorporated by reference from PREIT or Crown, as the case may be, or through the Securities and Exchange Commission or the SEC's web site. The address of that site is <http://www.sec.gov>. Documents incorporated by reference are available from the companies, without charge, excluding all exhibits unless specifically incorporated by reference as an exhibit to this document. Shareholders of PREIT or Crown may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from the appropriate company at the following addresses:

**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**  
**The Bellevue**  
**200 S. Broad Street**  
**Philadelphia, Pennsylvania 19102**  
**Attention: Jean Dardzinski**  
**Telephone: (215) 875-0735**

**CROWN AMERICAN REALTY TRUST**  
**Pasquerilla Plaza**  
**Johnstown, Pennsylvania 15901**  
**Attention: Sharon Callihan**  
**Telephone: (814) 535-9407**

**If you would like to request documents, in order to ensure timely delivery you must do so at least five business days before the date of the special meetings.** This means you must request this information no later than November 4, 2003. If you request any incorporated documents, we will mail them to you by first class mail, or another equally prompt means, within one business day after we receive your request.

**Pennsylvania Real Estate Investment Trust**  
**The Bellevue**  
**200 S. Broad Street**  
**Philadelphia, Pennsylvania 19102**

---

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON TUESDAY, NOVEMBER 11, 2003**

---

A special meeting of shareholders of Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust ("PREIT"), will be held at 11:00 a.m., local time, on Tuesday, November 11, 2003, at the Park Hyatt Philadelphia at the Bellevue, 200 South Broad Street, Philadelphia, PA, for the following purposes:

1. To consider and vote on the approval of the agreement and plan of merger, dated as of May 13, 2003, by and among PREIT, PREIT Associates, L.P., a Delaware limited partnership, Crown American Realty Trust, a Maryland real estate investment trust ("Crown"), and Crown American Properties, L.P., a Delaware limited partnership, a copy of which is attached as Annex A to the accompanying joint proxy statement/prospectus, the merger of Crown with and into PREIT under the merger agreement and the related transactions.
2. To consider and vote on the approval of the proposed 2003 Equity Incentive Plan, as amended.
3. To elect Mr. John J. Roberts to the board of trustees of PREIT to serve as a Class A trustee until the 2005 annual meeting of shareholders and until his successor has been duly elected and qualified.
4. To transact any other business as may properly come before the special meeting or any adjournments or postponements.

Only holders of record of PREIT common shares at the close of business on September 25, 2003 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements.

It is important that your common shares be represented and voted at the meeting. If you do not plan to attend the meeting and vote your common shares in person, please vote in one of these ways:

MARK, SIGN, DATE AND PROMPTLY RETURN your enclosed proxy card in the postage-paid envelope;

USE THE TOLL-FREE TELEPHONE NUMBER shown on your proxy card (this call is free in the U.S. and Canada); or

VISIT THE WEBSITE address shown on your proxy card to vote through the Internet.

Any proxy may be revoked at any time before its exercise at the meeting.

By order of the PREIT board of  
trustees

Bruce Goldman  
*Executive Vice President, General  
Counsel and Assistant Secretary*

Philadelphia, Pennsylvania  
October 1, 2003

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

The PREIT board of trustees has approved the merger agreement, the merger of Crown with and into PREIT and the related transactions and recommends that you vote to approve the merger agreement, the merger and the related transactions.

---

**PREIT  
VOTING METHODS**

You have the right to vote and, if desired, to revoke your proxy at any time before the PREIT special meeting.

If you hold your PREIT common shares in your name as a holder of record, you may instruct the proxy holders how to vote your PREIT common shares by using any of the voting methods specified above. *If your PREIT common shares are held by a broker, bank or other nominee, you will receive instructions from your nominee describing how to vote your common shares. Your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your common shares may not be voted on these matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum if the broker returns a properly executed proxy.*

---

**Crown American Realty Trust**  
Pasquerilla Plaza  
Johnstown, Pennsylvania 15901

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON TUESDAY, NOVEMBER 11, 2003**

---

A special meeting of shareholders of Crown American Realty Trust, a Maryland real estate investment trust ("Crown"), will be held at 11:00 a.m., local time, on Tuesday, November 11, 2003, at The Johnstown Holiday Inn, 250 Market Street, Johnstown, PA, for the following purposes:

- 1.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

To consider and vote on the approval of the agreement and plan of merger, dated as of May 13, 2003, by and among Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust ("PREIT"), PREIT Associates, L.P., a Delaware limited partnership, Crown, and Crown American Properties, L.P., a Delaware limited partnership, a copy of which is attached as Annex A to the accompanying joint proxy statement/prospectus, the merger of Crown with and into PREIT under the merger agreement and the related transactions.

2.

To transact any other business as may properly come before the special meeting or any adjournments or postponements.

Only holders of record of Crown common shares at the close of business on September 18, 2003 are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements.

It is important that your common shares be represented and voted at the meeting. If you do not plan to attend the meeting and vote your common shares in person, please vote in one of these ways:

MARK, SIGN, DATE AND PROMPTLY RETURN your enclosed proxy card in the postage-paid envelope;

USE THE TOLL-FREE TELEPHONE NUMBER shown on your proxy card (this call is free in the U.S. and Canada); or

VISIT THE WEBSITE address shown on your proxy card to vote through the Internet.

Any proxy may be revoked at any time before its exercise at the meeting.

By order of the Crown board of trustees,

Ronald P. Rusinak  
*Vice President, General Counsel  
and Secretary*

Johnstown, Pennsylvania  
October 1, 2003

### **MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

**The Crown board of trustees has approved the merger agreement, the merger of Crown with and into PREIT and the related transactions and recommends that you vote to approve the merger agreement, the merger and the related transactions.**

---

### **CROWN VOTING METHODS**

**You have the right to vote and, if desired, to revoke your proxy at any time before the Crown special meeting.**

If you hold your Crown common shares in your name as a holder of record, you may instruct the proxy holders how to vote your Crown common shares by using any of the voting methods specified above. *If your Crown common shares are held by a broker, bank or other nominee, you will receive instructions from your nominee which you must follow to have your common shares voted.*

---

## TABLE OF CONTENTS

	<b>Page</b>
TABLE OF CONTENTS	i
QUESTIONS & ANSWERS ABOUT THE MERGER	iv
SUMMARY	1
The Companies	1
The Combined Company	1
The PREIT Special Meeting: Vote Required	2
The Crown Special Meeting: Vote Required	2
Recommendation of PREIT Board	3
Recommendation of Crown Board	3
Fairness Opinions	4
Risks Associated with the Merger	5
The Merger Agreement	5
Structure Diagrams	8
Regulatory Approvals	11
No Dissenters' Rights	11
Accounting Treatment	11
Material Tax Consequences of the Merger	11
Trustees and Executive Officers of PREIT after the Merger	11
Interests of Trustees and Officers of Crown and PREIT in the Merger	11
Crown and PREIT Voting Agreements	13
Comparative Per Share Market Price	13
Differences in the Rights of Shareholders	14

	<b>Page</b>
Summary Historical Consolidated Financial Data	15
Summary Unaudited Pro Forma Condensed Combined Financial Data	18
<b>RISK FACTORS</b>	<b>19</b>
<i>Crown common shareholders may receive PREIT common shares in the merger with a market value lower or higher than expected</i>	19
<i>The operations of PREIT and Crown may not be integrated successfully and intended benefits of the merger may not be realized, which could materially harm the combined company's operating results and financial condition</i>	19
<i>PREIT's operating performance may be adversely affected following the merger if PREIT chooses not to sell specified assets acquired in the merger</i>	20
<i>Crown's outstanding debt obligations could materially adversely affect PREIT's future financial condition and operating results</i>	20
<i>If the merger does not qualify as a tax free reorganization, Crown shareholders may recognize taxable gain</i>	21
<i>The merger will result in reductions in distributions per share for Crown common shareholders after the merger</i>	21
<i>The trustees and executive officers of Crown, including Mark E. Pasquerilla, have interests in the completion of the merger that may conflict with the interests of the securityholders of Crown</i>	22
<i>PREIT or Crown may incur substantial expenses and payments if the merger does not occur, which could materially harm their financial condition and discourage other potential acquirors of Crown which might otherwise be desirable to their shareholders</i>	22
<i>After the merger, Mr. Pasquerilla will exercise influence over PREIT and may delay, defer or prevent PREIT from taking certain actions that would be beneficial to its shareholders</i>	23
<i>PREIT could be disqualified as a REIT or have to pay taxes if Crown does not qualify as a REIT at the time of the merger</i>	23
<i>Recent change in taxation of corporate dividends may adversely affect the value of PREIT's shares</i>	23
<b>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</b>	<b>25</b>
<b>RATIO OF COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS TO EARNINGS</b>	<b>26</b>
<b>PREIT RECENT DEVELOPMENTS</b>	<b>27</b>
Equity Offering	27
Willow Grove Acquisition	27
IKEA Transaction	27
Multifamily Portfolio Disposition	27
<b>THE PREIT SPECIAL MEETING</b>	<b>28</b>
Date, Time, Place and Purpose of PREIT Special Meeting	28
Record Date; Shares Entitled to Vote and Quorum Requirements	28
Vote Required	28
Voting and Revocability of Proxies	29
Voting Agreements	30
Voting on Other Matters	30
Costs of this Proxy Solicitation	30
<b>THE CROWN SPECIAL MEETING</b>	<b>31</b>
Date, Time, Place and Purpose of Crown Special Meeting	31
Record Date; Shares Entitled to Vote and Quorum Requirement	31
Vote Required	31
Voting and Revocability of Proxies	31
Voting Agreements	32
Voting on Other Matters	32
Costs of this Proxy Solicitation	32
Annual Meeting	32
<b>THE MERGER</b>	<b>33</b>



# Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	<b>Page</b>
Structure of the Merger	33
Background of the Merger	34
PREIT's Reasons for the Merger; Recommendation of the PREIT Board	40
Opinion of Lehman Brothers Inc.	44
Crown's Reasons for the Merger; Recommendation of the Crown Board	51
i	
<hr style="border: 1px solid black;"/>	
Opinion of Wachovia Securities	56
Trustees and Executive Officers of PREIT After the Merger	64
Interests of Trustees and Executive Officers of Crown and PREIT in the Merger	65
Listing of New PREIT Common Shares and 11% Preferred Shares	69
The Pre-Merger Distribution	69
The Crown Partnership Contribution	70
The PREIT Contribution	70
Palmer Park Mall Venture Arrangements	70
Accounting Treatment	70
Regulatory Matters	70
No Dissenters' Rights	70
Resale of New PREIT Common Shares and 11% Preferred Shares	71
THE MERGER AGREEMENT	72
The Merger Agreement	72
The Merger	72
Closing; Effective Time of Merger	72
Merger Consideration	72
Surrender of Crown Certificates	73
Treatment of Crown Options	73
Arrangements with Respect to Crown Employees	74
Board of Trustees of PREIT	75
Representations and Warranties of PREIT and Crown	75
Conduct of Business of Crown and Crown Partnership Pending the Merger	76
Conduct of Business of PREIT and PREIT Partnership Pending the Merger	80
No Solicitation by Crown	83
Pre-Merger Dividends and Distributions	86
The Pre-Merger Transactions	87
The Post-Merger Transactions	87
Conditions to the Merger	88
Termination of the Merger Agreement	91
Waiver and Amendment of the Merger Agreement	101
Indemnification; Directors' and Officers' Insurance	101
Assumption of Crown's Obligations under Registration Rights Agreements	102
Agreements with Mark E. Pasquerilla and Affiliates	102
The Agreement of Exchange	102
Sale of Oak Ridge and Amendment to Crown Partnership Agreement and Support Agreement	102
The Distribution Agreement	103
The Contribution Agreements	104

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The PREIT and Crown Voting Agreements	105
AGREEMENTS WITH MARK E. PASQUERILLA AND AFFILIATES	109
The Shareholder Agreement	109
The Tax Protection Agreement	110
The Indemnification Agreement	112
The Non-Competition Agreement	113
The Standstill Agreement	114
The Registration Rights Agreement	115
COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION	117
MATERIAL FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE MERGER	118
MATERIAL FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE PRE- MERGER DIVIDEND	122
FEDERAL INCOME TAX CONSIDERATIONS TO PREIT SHAREHOLDERS	123
Taxation of PREIT	123
Income Taxation of PREIT Partnership, the Title Holding Partnerships and their Partners	129
Taxation of Shareholders	131
Backup Withholding Tax and Information Reporting	136
Sunset of Tax Provisions	137
Other Tax Considerations	138
Tax Shelter Reporting	138
DESCRIPTION OF PREIT SHARES OF BENEFICIAL INTEREST	139
Authorized Capital Stock	139
Shares of Beneficial Interest	139
New 11% Preferred Shares	140
PREIT Shareholder Rights Plan	144
Transfer Agent and Registrar	145
Limited Liability of Shareholders	145
Summary of the Operating Partnership Agreement and PREIT Partnership Units	146
REIT Ownership Limitations and Transfer Restrictions Applicable to PREIT Shares of Beneficial Interest and 11% Preferred Shares	148
Certain Provisions Affecting a Change in Control	149
COMPARISON OF SHAREHOLDER RIGHTS	151
Authorized Shares	151
Voting Rights	152
Classification of Board	153
Number of Trustees; Removal of Trustees; Vacancies	153
Limitations of Trustee and Officer Liability	154
Indemnification	155
Duties of Trustees	158
Call of Special Meetings of Shareholders	159
Advance Notice Provisions for Shareholder Nominations and Shareholder Business Proposals	159
Amendments to PREIT Trust Agreement and Crown Declaration of Trust	159
Amendment of the By-laws	161
Dissolution of PREIT or Crown; Termination of REIT Status	161
Mergers, Consolidations and Sales of Assets	161
Business Combinations with Interested Shareholders	163
Control Share Acquisitions	164

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Other Constituencies	164
ii	
<hr/>	
Dissenters' Rights	165
Distributions	165
Ownership Limitations	165
Shareholder Rights Plans	167
ELECTION OF CLASS A TRUSTEE	168
Required Vote	171
Board Recommendation	171
Summary Compensation Table	172
Employment Agreements	173
Stock Options	175
Equity Compensation Plans	176
2002-2004 Long Term Incentive Plan Awards in 2002	176
Transactions with Management	178
Board Matters	182
Section 16(a) Beneficial Ownership Reporting Compliance	183
Report of Executive Compensation and Human Resources Committee on Executive Compensation	183
Performance Graph	185
PREIT'S 2003 EQUITY INCENTIVE PLAN	186
Eligible Participants; Maximum Number of Shares	186
Types of Awards	187
Transferability	188
Treatment of Awards upon Termination of Employment or Service	188
Adjustments in Shares; Certain Corporate Transactions	189
Withholding Requirements	189
Discontinuance, Cancellations, Amendment and Termination	189
Market Value	190
Federal Income Tax Treatment of Options	190
Required Vote	190
Filing of Registration Statement for Shares	190
Board Recommendation	190
LEGAL MATTERS	191
EXPERTS	191
SHAREHOLDER PROPOSALS	192
OTHER MATTERS	192
WHERE YOU CAN FIND MORE INFORMATION	192
WHAT INFORMATION YOU SHOULD RELY ON	194
PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	F-1
Annex A Agreement and Plan of Merger	A-1
Annex B Opinion of Lehman Brothers, dated May 13, 2003	B-1
Annex C Opinion of Wachovia Securities, dated May 13, 2003	C-1
Annex D PREIT's 2003 Equity Incentive Plan and Amendment No. 1 thereto	D-1
Annex E Crown Partnership Distribution Agreement	E-1
Annex F Crown Partnership Contribution Agreement	F-1
Annex G PREIT Contribution Agreement	G-1

---

**QUESTIONS & ANSWERS ABOUT THE MERGER**

**Q: Why are PREIT and Crown proposing the merger?**

**A:** The boards of both companies believe that the merger represents a strategic combination of two real estate organizations that will be in the best interests of their respective organizations and shareholders and will solidify PREIT's position as a leading shopping mall REIT in the Mid-Atlantic region. PREIT will own interests in 54 retail properties with approximately 33.4 million square feet in 14 states upon completion of the merger. The combined company is expected to have a significantly increased equity market capitalization which is expected to provide greater financial flexibility and liquidity. PREIT's board believes that PREIT can use its established franchise within the retail community, its long-standing relationship with retailers, its in-house construction and development personnel, its experienced leasing team, and its other operating strengths to create opportunities for long term growth and value-creation with respect to Crown's portfolio. To review the reasons for the merger in greater detail, please see "The Merger PREIT's Reasons for the Merger; Recommendation of the PREIT Board" beginning on page 40 and " Crown's Reasons for the Merger; Recommendation of the Crown Board" beginning on page 51.

**Q: What will I receive in the merger?**

**A:** *Crown Shareholders.* In the merger, Crown common shareholders will receive 0.3589 common shares of beneficial interest of PREIT for each outstanding common share of beneficial interest of Crown. Cash will be paid instead of issuing fractional shares. Holders of outstanding Crown 11% non-convertible, senior preferred shares will receive one newly created PREIT 11% non-convertible, senior preferred share for each outstanding Crown 11% preferred share. The PREIT 11% preferred shares issued in the merger will have preferences and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption identical in all material respects to those of the Crown 11% preferred shares.

*PREIT Shareholders.* PREIT shareholders will not receive any additional shares in connection with the merger. Each PREIT common share held by PREIT shareholders will continue to represent one PREIT common share after the merger.

**Q: How much of the combined company's common shares will be owned by former Crown shareholders after the merger?**

**A:** We estimate that immediately following the completion of the merger, 33.7% of the outstanding PREIT common shares will be owned by former Crown common shareholders and the remaining 66.3% will be owned by persons who were PREIT common shareholders immediately prior to the completion of the merger, in each case considered on a fully diluted and as-converted basis.

**Q: What happens if the price of PREIT common shares and/or Crown common shares changes before the closing of the merger?**

**A:** No change will be made to the 0.3589 exchange ratio for the exchange of Crown common shares for PREIT common shares in the merger. Because the market value of PREIT common shares will fluctuate before and after the closing of the merger, the value of the consideration that Crown common shareholders will receive in the merger will fluctuate as well.

**Q: What am I being asked to vote on?**

**A:** *Crown Common Shareholders:*

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

You are being asked to approve the merger agreement, the merger of Crown with and into PREIT and the related transactions. Approval of the merger agreement, the merger and the related transactions requires the affirmative vote of the holders of at least a majority of the outstanding Crown common shares.

**The Crown board has unanimously approved the merger agreement, the merger of Crown with and into PREIT and the related transactions and recommends that Crown common shareholders vote FOR approval of the merger agreement, the merger and the related transactions.**

iv

---

### *PREIT*

#### *Common Shareholders:*

You are being asked to approve the merger agreement, the merger of Crown with and into PREIT and the related transactions. Approval of the merger agreement, the merger and the related transactions requires the affirmative vote of at least a majority of all votes cast by all shareholders entitled to vote thereon.

You also are being asked to elect John J. Roberts as a Class A member of PREIT's board of trustees. The nominee receiving the highest number of votes cast at the special meeting will be elected as a trustee. Mr. Roberts is the only nominee for election at the PREIT special meeting.

You also are being asked to approve the PREIT 2003 equity incentive plan. Approval of the PREIT 2003 equity incentive plan requires the affirmative vote of a majority of all votes cast by shareholders entitled to vote thereon, provided that the total votes cast represents over 50% of all votes entitled to be cast.

**The PREIT board has unanimously approved the merger agreement, the merger of Crown with and into PREIT and the related transactions and recommends that PREIT common shareholders vote FOR approval of the merger agreement, the merger and the related transactions. The PREIT board also recommends that PREIT common shareholders vote FOR the election of John J. Roberts as a Class A trustee and FOR the approval of the PREIT 2003 equity incentive plan.**

**Q: Do PREIT shareholders vote separately for the merger and on the election of John J. Roberts and on the PREIT 2003 equity incentive plan?**

A: Yes, PREIT shareholders must cast votes for the merger separately from their votes on the election of John J. Roberts and on the PREIT 2003 equity incentive plan. Approval of each of the three separate proposals is not conditioned on the approval of any of the other proposals.

**Q: Do Crown common or preferred shareholders have dissenters' rights?**

A: No. Crown was organized under Maryland law. Under Maryland law, because Crown common shares and 11% preferred shares are each listed on a national securities exchange, Crown common and preferred shareholders have no rights to dissent and receive an appraised value of their shares in the merger.

**Q: Do PREIT common shareholders have dissenters' rights?**

A: No. PREIT was organized under Pennsylvania law. Under Pennsylvania law, PREIT common shareholders will have no rights to dissent and receive an appraised value of their common shares in the merger.

**Q: How soon after the special meetings will the merger occur?**

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

A: If the merger agreement, the merger and the related transactions are approved at both the PREIT and the Crown special meetings, we anticipate that the merger will occur as soon as practicable after the special meetings.

**Q: Who will manage the combined company?**

A: PREIT and Crown have agreed that PREIT's existing management team will manage the operations of the combined company. PREIT also has agreed following the merger to expand its board of trustees by two members, who will be Mark E. Pasquerilla, Crown's chairman, chief executive officer and president, and Donald F. Mazziotti, a member of Crown's board of trustees. Messrs. Pasquerilla and Mazziotti will be appointed at the first regular meeting of PREIT's board of trustees following the effective time of the merger.

**Q: Will I recognize taxable gain or loss as a result of the merger?**

A: We expect the following tax consequences generally to apply:

*Crown Shareholders:* For U.S. federal income tax purposes, a Crown shareholder will not recognize any gain or loss as a result of the exchange of the Crown shares for the PREIT shares except with regard to any cash received in lieu of a fractional share. A Crown shareholder will have an aggregate tax basis in the PREIT shares received in the merger equal to the shareholder's aggregate basis in the Crown shares exchanged for the PREIT shares and the shareholder's holding period for the PREIT shares received in the exchange will

v

---

include the holding period of the Crown shares exchanged therefor. For a description of the tax treatment of cash received for fractional shares of PREIT and other material tax consequences of the merger, see "Material Federal Income Tax Consequences Relating to the Merger" beginning on page 118.

*PREIT Shareholders:* For U.S. federal income tax purposes, a PREIT shareholder will not recognize either gain or loss as a result of the merger. For a description of other material tax consequences of the merger, see "Material Federal Income Tax Consequences Relating to the Merger" beginning on page 118.

**Q: What dividends will Crown shareholders receive prior to closing of the merger?**

A: Until the merger is completed, Crown common and preferred shareholders will continue to receive regular dividends as authorized by Crown's board of trustees in its discretion. Assuming the merger closes before December 31, 2003, Crown currently does not intend to pay any further dividends, other than the quarterly dividends declared for the period ended June 30, 2003 and the period ending September 30, 2003 and, if necessary, a final dividend in an amount equal to the minimum amount necessary to maintain Crown's REIT status under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and to avoid the payment of any corporate level tax with respect to undistributed income or gain, as required by the merger agreement. Crown currently does not anticipate that a final dividend will be necessary. If the merger closes after December 31, 2003, Crown currently intends to continue to pay regular quarterly dividends for any additional quarterly periods ending before the closing of the merger.

**Q: What will my dividends be after the merger?**

A: After the completion of the merger, former holders of Crown common shares will receive the distributions payable to all holders of PREIT common shares with a record date after the closing, and former Crown preferred shareholders will be entitled to receive the same cumulative distributions on their PREIT 11% preferred shares that they were entitled to as holders of Crown 11% preferred shares. Dividends on PREIT's common shares are payable at the discretion of PREIT's board. PREIT's current quarterly dividends on its common shares are \$0.51 per share. Following completion of the merger, PREIT currently intends to increase its quarterly cash dividend on its common shares to \$0.54 per share. Upon completion of the merger, Crown common and preferred shareholders will cease receiving any distributions or dividends on Crown common shares and Crown 11% preferred shares held before the merger other than any dividends declared before completion of the merger but not yet paid.

**Q:**  
**What should I do now?**

**A:**  
If you are a PREIT common shareholder or a Crown common shareholder, indicate on your proxy card how you want to vote, and sign and mail it in the enclosed envelope as soon as possible so that your shares will be represented at your special meeting.

*Proposal to Approve the Merger Agreement, the Merger and the Related Transactions.* If you sign and send in your proxy and do not indicate how you want to vote on the merger, your proxy will be voted in favor of the proposal to approve the merger agreement, the merger and the related transactions. For PREIT shareholders, assuming a quorum is present, if you do not sign and send in your proxy and do not vote on the merger at your special meeting, then the shares represented by your proxy will not be counted and will not affect the vote. For Crown shareholders, if you do not sign and send in your proxy and do not vote at your special meeting, or if you abstain, it will have the effect of a vote against approval of the merger agreement, the merger and the related transactions.

*Election of PREIT Class A Trustee.* If you are a PREIT common shareholder and if you sign and send in your proxy card and do not indicate how you want to vote on the election of a Class A trustee, your proxy will be voted for the election of John J. Roberts. Assuming a quorum is present, if you do not sign and send in your proxy and do not vote on the election of John J. Roberts at your special meeting, or if you abstain, then your shares will not be counted and will not affect the vote.

*Proposal to Approve the PREIT 2003 Equity Incentive Plan.* If you are a PREIT common shareholder and if you sign and send in your

vi

---

proxy and do not indicate how you want to vote on the proposal to approve the PREIT 2003 equity incentive plan, your proxy will be voted in favor of the proposal to approve the PREIT 2003 equity incentive plan. Assuming a quorum is present and assuming that the total votes cast represent over 50% of all votes entitled to be cast, if you do not sign and send in your proxy and do not vote on the PREIT 2003 equity incentive plan at your special meeting, or if you abstain, then your shares will not be counted and will not affect the vote.

You can choose to attend your special meeting and vote your shares in person instead of completing and returning a proxy card. If you do complete and return a proxy card, you may change your vote at any time up to and including the time of the vote on the day of your special meeting by following the directions beginning on page 28 for PREIT shareholders and beginning on page 31 for Crown shareholders.

You also may vote by telephone or through the Internet by following the instructions on your proxy card.

**Q:**  
**If my shares are held in "street name" by my broker, will my broker vote my shares for me?**

**A:**  
*PREIT Common Shareholders:*

*Proposal to Approve the Merger Agreement, the Merger and the Related Transactions.* Your broker may not vote your shares on the merger proposal unless you instruct your broker how to vote by following the directions your broker provides.

*Election of a PREIT Class A Trustee.* Your broker may vote your PREIT common shares on the election of a Class A trustee even if you do not instruct your broker how to vote.

*Proposal to Approve the PREIT 2003 Equity Incentive Plan.* Your broker may not vote your PREIT common shares on the proposal to approve the PREIT 2003 equity incentive plan unless you instruct your broker how to vote.

*Crown Common Shareholders:*

Your broker may not vote your shares on the merger proposal unless you instruct your broker how to vote by following the directions your broker provides. A failure to vote your shares will have the effect of voting against approval of the merger agreement, the merger and the related transactions.

**Q:**  
**Should I send in my stock certificates now?**

**A:**  
No. If you are a Crown shareholder, after the merger, PREIT's exchange agent will send you a letter of transmittal explaining what you must do to exchange your Crown common or 11% preferred share certificates for the merger consideration payable to you.

If you are a PREIT shareholder, you are not required to take any action regarding your PREIT common share certificates.

**Q:**  
**Who can answer my questions?**

**A:**  
*PREIT Common Shareholders.* PREIT common shareholders who have questions about the merger or desire additional copies of this joint proxy statement/prospectus, additional proxy cards or copies of documents incorporated by reference should contact:

Pennsylvania Real Estate Investment Trust  
The Bellevue  
200 S. Broad Street  
Philadelphia, Pennsylvania 19102  
Attention: Jean Dardzinski  
(215) 875-0735

*Crown Common and Preferred Shareholders.* Crown common and preferred shareholders who have questions about the merger or desire additional copies of this joint proxy statement/prospectus or, with respect to Crown common shareholders, who desire additional proxy cards should contact:

Crown American Realty Trust  
Pasquerilla Plaza  
Johnstown, Pennsylvania 15901  
Attention: Sharon Callihan  
(814) 535-9420

vii

---

## SUMMARY

*This summary highlights selected information from this joint proxy statement/prospectus. It does not contain all of the detailed information that may be important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document and the other documents to which we refer, including the merger agreement. For more information about PREIT and Crown, see "Where You Can Find More Information" beginning on page 192. Each item in this summary refers to the pages where that subject is discussed more fully.*

### The Companies

#### *Pennsylvania Real Estate Investment Trust*

The Bellevue  
200 S. Broad Street  
Philadelphia, Pennsylvania 19102  
(215) 875-0700



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

PREIT, which is organized as a business trust under Pennsylvania law, is a fully integrated, self-administered and self-managed real estate investment trust, founded in 1960, that acquires, develops, redevelops and operates retail properties. As of June 30, 2003, PREIT owned interests in 28 retail properties with approximately 17.5 million square feet in seven states. PREIT has elected, and conducts its operations in a manner intended, to comply with the requirements for qualification as a real estate investment trust under the Real Estate Investment Trust Act of 1960, Sections 856-60 of the Internal Revenue Code.

PREIT is the sole general partner of and owns approximately a 92.4% interest in PREIT Associates, L.P., a Delaware limited partnership, which we refer to as PREIT Partnership. PREIT owns substantially all of its assets and conducts substantially all of its operations through PREIT Partnership.

### ***Crown American Realty Trust***

Pasquerilla Plaza  
Johnstown, Pennsylvania 15901  
(814) 536-4441

Crown, which is organized as a REIT under Maryland law, is a fully integrated, self-administered and self-managed REIT, formed in 1993, that is primarily engaged in the ownership, operation, management, leasing, acquisition, development, redevelopment, expansion, renovation and financing of enclosed shopping malls. Crown has elected, and conducts its operations in a manner intended, to comply with the requirements for qualification as a REIT under the Real Estate Investment Trust Act of 1960, Sections 856-60 of the Internal Revenue Code.

Crown is the sole general partner of and owns 100% of the preferred partner interests and approximately 85.1% of the common partner interests in Crown American Properties, L.P., a Delaware limited partnership, which we refer to as Crown Partnership. Crown owns substantially all of its assets and conducts substantially all of its operations through Crown Partnership.

### **The Combined Company**

#### ***Pennsylvania Real Estate Investment Trust***

The Bellevue  
200 S. Broad Street  
Philadelphia, Pennsylvania 19102  
(215) 875-0700

Pursuant to the merger, Crown will be merged with and into PREIT, and the separate existence of Crown will cease. Upon completion of the merger, PREIT will remain the sole general partner of PREIT Partnership, and will own 100% of the preferred partner interests and approximately 91.9% of the common partner interests in PREIT Partnership. PREIT will not own Crown Partnership, but substantially all of the assets and liabilities of Crown Partnership will be transferred to PREIT Partnership in a series of related pre- and post-merger transactions.

PREIT will own interests in 54 retail properties with approximately 33.4 million square feet in 14 states upon completion of the merger. Approximately 82% of the gross leasable area of the portfolio will be located in the Mid-Atlantic states of Pennsylvania, New Jersey, Delaware and Maryland. Based upon a per share closing price of PREIT common shares on the New York Stock Exchange on September 30, 2003 the latest practicable date before mailing of this joint proxy statement/prospectus, the debt and equity market

capitalization of the combined company is estimated to be approximately \$3.04 billion.

### **The PREIT Special Meeting; Vote Required (see page 28)**

The PREIT special meeting will be held at the Park Hyatt Philadelphia at the Bellevue, 200 South Broad Street, Philadelphia, PA on Tuesday, November 11, 2003 at 11:00 a.m., local time. At the PREIT special meeting, assuming a quorum is present, holders of PREIT common shares will be asked to consider and vote upon (1) a proposal to approve the merger agreement, the merger of Crown with and into PREIT and the related transactions, (2) the election of John J. Roberts as a Class A trustee and (3) a proposal to approve PREIT's 2003 equity incentive plan. The holders of a majority of the outstanding shares entitled to vote at the PREIT special meeting must be present in person or by proxy to constitute a quorum for the transaction of business at the PREIT special meeting. Abstentions and broker or nominee non-votes represented at the meeting are counted for determining whether a quorum is present.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Approval of the proposal to approve the merger agreement, the merger and the related transactions requires the affirmative vote of the holders of at least a majority of the votes cast at the special meeting by all shareholders of PREIT entitled to vote thereon and, pursuant to PREIT Partnership's limited partnership agreement, of certain holders of units of limited partner interest in PREIT Partnership, or PREIT Partnership Units, who are entitled to vote on the merger (for this purpose, as if voting together with PREIT common shareholders as a single class). A total of 830,882 PREIT common shares, or 3.54% of the PREIT common shares entitled to vote at the PREIT special meeting, and 951,757 PREIT Partnership Units, or 68% of the PREIT Partnership Units entitled to vote on the merger, were held as of September 25, 2003 by PREIT trustees, executive officers and their affiliates.

The nominee receiving the highest number of votes of PREIT common shares at the special meeting will be elected as a Class A trustee of PREIT. Mr. Roberts is the only nominee for election at the PREIT special meeting.

Approval of PREIT's 2003 equity incentive plan requires the affirmative vote of a majority of the votes cast at the special meeting by all shareholders of PREIT entitled to vote thereon, provided that the total vote cast on the proposal represents over 50% of all votes entitled to be cast on the proposal. For purposes of this vote requirement of the New York Stock Exchange,

a majority of the outstanding PREIT common shares must vote on the proposal (holders of outstanding shares present at the PREIT special meeting for quorum purposes but who do not vote on this proposal would not be counted towards the required majority) and

votes in favor of the proposal must constitute at least a majority of the total votes cast on the proposal.

You can vote at the PREIT special meeting if you owned PREIT common shares at the close of business on September 25, 2003.

### **The Crown Special Meeting; Vote Required (see page 31)**

The Crown special meeting will be held at the Johnstown Holiday Inn, 250 Market Street, Johnstown, PA on Tuesday, November 11, 2003 at 11:00 a.m., local time. At the Crown special meeting, assuming a quorum is present, the shareholders of Crown will be asked to consider and vote upon a proposal to approve the merger agreement, the merger of Crown with and into PREIT and the related transactions. A quorum consists of the presence, in person or by proxy, of shareholders entitled to cast a majority of all the votes entitled to be cast at the Crown special meeting. The outstanding shares of Crown 11% preferred shares are not entitled to vote on the proposal to approve the merger agreement, the merger and the related transactions. Therefore, a quorum will be achieved by the presence, in person or by proxy, of a majority of the issued and outstanding Crown common shares.

Approval of the merger agreement, the merger and the related transactions requires the affirmative vote of holders of at least a majority of the issued and outstanding Crown common shares and, pursuant to Crown Partnership's limited partnership agreement, the approval of Crown Investments Trust and Crown American Investment Company, as limited partners of Crown

2

---

Partnership. Crown Investments Trust and Crown American Investment Company have agreed to vote in favor of the merger. A total of 3,266,011 Crown common shares, or 10.04% of the Crown common shares entitled to vote at the Crown special meeting, were held as of September 18, 2003 by Crown trustees, executive officers and their affiliates.

You can vote at the Crown special meeting if you owned Crown common shares at the close of business on September 18, 2003.

### **Recommendation of PREIT Board (see page 40)**

The PREIT board has unanimously adopted and approved the merger agreement, the merger and the related transactions, has determined that the merger and the related transactions are advisable to PREIT and recommends that PREIT shareholders entitled to vote on the merger vote FOR approval of the merger agreement, the merger and the related transactions. In reaching its recommendation in favor of the merger agreement, the merger and the related transactions, the PREIT board of trustees considered a number of positive and negative factors relating to the merger, including the following, no one of which was determinative:

Positive Factors:

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

strategic opportunity to solidify PREIT's position as a leading shopping mall REIT in the Mid-Atlantic region;

value-creation opportunities and long-term growth potential using PREIT's operating strengths with respect to Crown's portfolio;

greater financial flexibility and liquidity;

relationships with tenants and vendors;

management continuity;

opportunity for efficient utilization of personnel and systems;

greater control over and predictability of the effect of the merger as a result of the fixed exchange ratio;

accretive effect in 2004;

reduction of percentage of joint venture assets to total assets;

benefits of arrangements with Mark E. Pasquerilla and his affiliates, including lower risk of certain actions by Mr. Pasquerilla and his affiliates which could be adverse to PREIT shareholders; and

opinion of Lehman Brothers Inc.

### Negative Factors:

increased leverage;

potential difficulties in integrating the two companies;

risks associated with non-core properties;

risks and costs associated with obtaining required third-party consents;

risks related to assumed indebtedness;

increased retail exposure;

costs of merger;

retailer perception and anchor expirations in the Crown portfolio;

financial market perception;

risk that the merger may not be completed;

termination fee; and

interest of and arrangements with Mark E. Pasquerilla and his affiliates, including a tax protection agreement and a registration rights agreement.

To review the background and PREIT's reasons for the merger in greater detail, as well as some risks related to the merger, see "The Merger - PREIT's Reasons for the Merger; Recommendation of the PREIT Board" beginning on page 40.

The PREIT board also unanimously recommends that PREIT shareholders vote

FOR the election of John J. Roberts as a Class A trustee of PREIT; and

FOR the approval of PREIT's 2003 equity incentive plan.

**Recommendation of Crown Board (see page 51)**

The Crown board of trustees has unanimously adopted and approved the merger agreement, the merger and the related transactions, has

3

---

determined that the merger agreement, the merger and the related transactions are in the best interests of Crown and its shareholders and recommends that Crown common shareholders entitled to vote on the merger vote FOR approval of the merger agreement, the merger and the related transactions. In reaching its recommendation in favor of the merger agreement, the merger and the related transactions, the Crown board of trustees considered a number of positive and negative factors relating to the merger, including the following, no one of which was determinative:

Positive Factors:

access to properties having stronger operating fundamentals and greater tenant diversification;

PREIT's experience in and perceived capability to create value in middle-market retail properties;

greater financial flexibility and liquidity;

announcement of post-merger increase in PREIT's quarterly cash dividends;

tax-free nature of the transaction;

representation on the board of trustees of the combined company;

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

reduction of interest of the largest holder of Crown common shares;

absence of other substantive proposals from potential acquirors or combination partners; and

opinion of Wachovia Capital Markets, LLC.

### Negative Factors:

risk that the benefits of the merger may not be realized;

potential integration difficulties;

risk that the merger may not be completed;

termination fee;

negative effect of the merger on Crown's ability to retain key employees;

possible future decreases in the value of PREIT common shares;

risk of valuation changes as a result of a fixed exchange ratio;

disproportionate representation on the board of trustees of the combined company;

lower dividends; and

expectation that a greater percentage of dividends would be taxable.

To review the background and Crown's reasons for the merger in greater detail, as well as some risks related to the merger, see "The Merger - Crown's Reasons for the Merger; Recommendation of the Crown Board" beginning on page 51.

### Fairness Opinions

#### *PREIT (see page 44)*

In deciding to adopt and approve the merger agreement, the merger and the related transactions, the PREIT board considered the oral opinion, delivered May 13, 2003, of its financial advisor, Lehman Brothers Inc., that, as of that date, and based upon and subject to the factors and assumptions set forth in its written opinion of the same date, the weighted average exchange ratio of 0.3225 is fair to PREIT from a financial point of view. The "weighted average exchange ratio" is the weighted average of the exchange ratio of 0.3589 to be paid by PREIT for the Crown common shares and the exchange ratio of 0.2053 to be paid by PREIT for the Crown Partnership Units held by Crown Investments Trust and Crown American Investment Company pursuant to the merger and the related transactions. The Lehman Brothers opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Lehman Brothers in connection with its opinion, is attached as Annex B to this document. **We encourage PREIT shareholders to read this opinion carefully. This opinion does not, however, constitute a recommendation as to how any PREIT shareholder should vote with respect to the merger agreement, the merger and the related transactions.**

#### *Crown (see page 56)*

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

In deciding to adopt and approve the merger agreement, the merger and the related transactions, the Crown board considered the oral opinion, delivered May 13, 2003, of its financial

4

---

advisor, Wachovia Capital Markets, LLC, or Wachovia Securities, that, as of that date, and subject to and based upon the assumptions made, procedures followed, matters considered and limitations of the review undertaken, the consideration to be received by holders of Crown common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders of Crown common shares. This opinion was later confirmed in writing as of May 13, 2003. The Wachovia Securities opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Wachovia Securities in connection with its opinion, is attached as Annex C to this document. **We encourage Crown shareholders to read this opinion carefully. This opinion does not, however, constitute a recommendation as to how any Crown shareholder should vote with respect to the merger agreement, the merger and the related transactions.**

### **Risks Associated with the Merger (see page 19)**

The boards of trustees of PREIT and Crown believe that the merger is in the best interests of their respective shareholders. There are, however, risks associated with the merger that you should consider in deciding how to vote. These risks include, among others:

the fact that the value of the PREIT common shares Crown shareholders will receive in the merger will fluctuate during the period before the merger;

the potential inability of PREIT to integrate successfully Crown's portfolio and its recent purchase of six shopping malls from The Rouse Company and to realize the intended benefits of the merger and the shopping mall purchase;

the potential adverse effect on PREIT's operating performance following the merger if PREIT chooses not to sell certain assets acquired from Crown in the merger;

the fact that Crown's outstanding debt obligations will increase PREIT's leverage and affect PREIT's future financial condition and operating results;

the fact that the trustees and executive officers of Crown may have interests in, and will receive benefits from, the merger that are different from, or in addition to, and, therefore may conflict with, the interests of the Crown shareholders in the merger;

the fact that PREIT and Crown have already incurred substantial expenses in connection with the merger, and may incur additional expenses if the merger is not completed;

the fact that Crown or PREIT may be required to pay a termination fee of \$20 million under specified circumstances; and

the fact that PREIT or Crown may be required to reimburse either \$7 million or \$3.5 million of the other party's expenses if the merger agreement is terminated under specified circumstances.

### **The Merger Agreement (see page 72)**

*The merger agreement is attached as Annex A to this document. We urge you to read the merger agreement because it is the legal document that governs the merger.*

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The merger agreement contemplates the merger of Crown with and into PREIT, subject to the satisfaction of specified conditions. Following the merger, Crown will cease to exist. In the merger, holders of Crown common shares will receive, for each Crown common share issued and outstanding immediately prior to the merger, 0.3589 PREIT common shares. Holders of Crown 11% preferred shares will receive for each share issued and outstanding immediately before the merger, one PREIT 11% preferred share, which is identical in all material respects to the Crown 11% preferred shares.

Crown Partnership will not be acquired by PREIT as part of the merger. However, substantially all of the assets and liabilities of Crown Partnership will be conveyed to PREIT Partnership through a series of related pre- and post-merger transactions, as described below.

### *The Pre-Merger Distribution (see page 69)*

The merger agreement contemplates that one business day prior to the merger, pursuant to a distribution agreement between Crown and Crown

5

---

Partnership, among other things, subject to the satisfaction of specified conditions, Crown Partnership will distribute to Crown, in complete liquidation of all of Crown's partnership interests in Crown Partnership, Crown's proportionate interest in all of Crown Partnership's assets and substantially all of Crown Partnership's liabilities. *The distribution agreement is attached as Annex E to this document. We urge you to read this agreement.*

### *The Contributions (see page 70)*

The merger agreement contemplates that, immediately following the effective time of the merger,

- (i) pursuant to a contribution agreement between PREIT Partnership and Crown Partnership, Crown Partnership will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership all of the assets held by Crown Partnership immediately following the merger, which will consist of those assets not distributed to Crown as part of the pre-merger distribution, and which will exclude a portion of Crown Partnership's interest in two partnerships that own 14 shopping malls, and PREIT Partnership will assume substantially all of Crown Partnership's liabilities and will issue to Crown Partnership PREIT Partnership Units, as described below, and
- (ii) pursuant to a contribution agreement between PREIT and PREIT Partnership, PREIT will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership substantially all of the assets of Crown Partnership distributed to Crown as part of the pre-merger distribution and acquired by PREIT from Crown in the merger, and PREIT Partnership will assume all of the liabilities of Crown Partnership assumed by Crown as part of the pre-merger distribution and transferred to PREIT in the merger and will issue PREIT Partnership Units to PREIT.

As part of the post-merger contributions, subject to the satisfaction of specified conditions, Crown Partnership will receive, for each outstanding Crown Partnership Unit immediately following the pre-merger distribution, approximately 0.2053 PREIT Partnership Units.

The excluded portion of Crown's interest in two partnerships is subject to a put-call arrangement between Crown Partnership and PREIT Partnership after the merger. Under that put-call arrangement, PREIT Partnership will have the right to require Crown Partnership to contribute the excluded interests to PREIT Partnership following the 36th month after the closing of the merger and Crown Partnership will have the right to contribute the excluded interests to PREIT Partnership following the 40th month after the closing of the merger.

*The contribution agreements are attached as Annexes F and G to this document. We urge you to read these agreements.*

### *Conditions to the Merger (see page 88)*

Prior to the pre-merger distribution and the merger, a number of conditions must be satisfied. These include:

the approval of the merger agreement and the transactions contemplated by the merger agreement by PREIT common shareholders and by Crown common shareholders;

the approval of the merger by a specified number of affirmative votes of certain holders of outstanding PREIT Partnership Units who are entitled to vote on the merger. For this purpose, the votes of the holders of units entitled to vote on the merger will be considered together with the PREIT common shareholders as a single class. The exact number of required affirmative votes by such holders will depend on the number of affirmative votes received from the holders of PREIT common shares at the PREIT special meeting. As of the record date, holders of over 68% of the PREIT Partnership Units entitled to vote on the merger have agreed to vote their PREIT Partnership Units in favor of the merger. This percentage of units will be sufficient to approve the merger under the terms of PREIT Partnership's limited partnership agreement assuming the merger is also approved by the affirmative vote of a majority of the votes

6

---

cast by PREIT shareholders at the PREIT special meeting;

the approval of the merger agreement and the transactions contemplated by the merger agreement by Crown Investments Trust and Crown American Investment Company, as limited partners of Crown Partnership. Crown Investments Trust and Crown American Investment Company also have agreed to vote in favor of the merger;

the delivery of opinions by Hogan & Hartson L.L.P., special counsel to PREIT, and Reed Smith LLP, counsel to Crown, that the merger qualifies as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code, which opinions also were delivered at the time the merger agreement was executed;

the delivery of opinions (1) by Drinker Biddle & Reath LLP, counsel to PREIT, regarding the REIT status of PREIT and (2) by Reed Smith LLP, counsel to Crown, regarding the REIT status of Crown and the partnership status of Crown Partnership;

the absence of a court order or law preventing the completion of the merger; and

other customary closing conditions.

Where the law permits, PREIT or Crown could decide to complete the merger even though one or more conditions were not satisfied. By law, neither PREIT nor Crown can waive:

the requirement that PREIT common shareholders and Crown common shareholders approve the merger agreement and the transactions contemplated by the merger agreement;

the requirement that certain holders of PREIT Partnership Units who are entitled to vote on the merger approve the merger agreement and the transactions contemplated by the merger agreement. For this purpose, the votes of the holders of units entitled to vote on the merger will be considered together with the PREIT common shareholders as a single class;

the requirement that Crown Investments Trust and Crown American Investment Company, as limited partners of Crown Partnership, approve the merger agreement and the transactions contemplated by the merger agreement; or

any court order or law preventing the closing of the merger.



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Whether any of the other conditions would be waived would depend on the facts and circumstances as determined by the board of trustees of PREIT or Crown. If PREIT or Crown waived compliance with one or more of the other conditions and the condition was deemed material to a vote of PREIT common shareholders and/or Crown common shareholders, PREIT and/or Crown would have to resolicit shareholder approval before closing the merger. The condition requiring delivery of opinions that the merger qualifies as a reorganization will not be waived.

### ***Termination of the Merger Agreement; Termination Fees (see page 91)***

The merger agreement contains provisions addressing the circumstances under which PREIT or Crown may terminate the merger agreement. In addition, the merger agreement provides that, in specified circumstances, PREIT or Crown may be required to pay to the other a termination fee of \$20 million. The merger agreement also provides that under specified circumstances, PREIT or Crown may be required to reimburse either \$7 million or \$3.5 million of the other party's expenses if the merger agreement is terminated under specified circumstances.

To the extent that the termination results from specified breaches by any party of any of its representations, warranties, covenants or agreements contained in the merger agreement, nothing in the merger agreement will limit a party's liability for breach by the party of its representations, warranties, covenants or agreements contained in the merger agreement.

7

---

### **Structure Diagrams**

The following diagrams depict in summary form the structure of PREIT and Crown as of September 30, 2003, and at each of the different stages contemplated by the merger and the related transactions.

The first diagram labeled "Current Structure" shows the structure of PREIT and Crown as of September 30, 2003.

The second diagram labeled "Immediately After the Pre-Merger Distribution" shows the structure of PREIT and Crown immediately after the distribution by Crown Partnership to Crown, in complete liquidation of all of Crown's partnership interests in Crown Partnership, of Crown's proportionate interest in all of Crown Partnership's assets subject to Crown's proportionate share of substantially all of Crown Partnership's liabilities. *This distribution will take place one business day prior to the merger, subject to the satisfaction of specified conditions.* At that stage, the structure of PREIT is unchanged. For more information, please see "The Merger Agreement The Distribution Agreement" beginning on page 103.

The third diagram labeled "Immediately After the Merger" shows the structure of the combined company immediately after the merger of Crown into PREIT and prior to the contributions described below.

The fourth diagram labeled "Final Structure (After the Contributions)" shows the structure of the combined company immediately after

the contribution by Crown Partnership to PREIT Partnership of all of the assets held by Crown Partnership immediately following the merger, which will consist of those assets not distributed to Crown as part of the pre-merger distribution described above, and which will exclude a portion of Crown Partnership's interest in two partnerships that own 14 shopping malls, and the assumption by PREIT Partnership of substantially all of Crown Partnership's liabilities and the issuance to Crown Partnership of PREIT Partnership Units, and

the contribution by PREIT to PREIT Partnership of substantially all of the assets of Crown Partnership distributed to Crown as part of the pre-merger distribution described above and acquired by PREIT from Crown in the merger, and the assumption by PREIT Partnership of the liabilities of Crown Partnership assumed by Crown as part of the pre-merger distribution described above and transferred to PREIT in the merger and the issuance to PREIT of PREIT Partnership Units. *These two contributions will take place concurrently immediately following the merger.* The excluded 11% interest in the capital and 1% interest in the profits of two partnerships will be subject to a put-call arrangement between Crown Partnership and PREIT Partnership. For more information, please see "The Merger Agreement The Contribution Agreements" beginning on page 104.

**Current Structure**

**Immediately After the Pre-Merger Distribution:**

**Immediately After the Merger:**

**Final Structure (After the Contributions):**

**Regulatory Approvals (see page 70)**

No material federal or state regulatory requirements must be complied with or approvals must be obtained by PREIT, PREIT Partnership, Crown or Crown Partnership in connection with the merger.

**No Dissenters' Rights (see page 70)**

Crown common and preferred shareholders and PREIT shareholders have no rights to dissent and receive an appraised value of their shares in the merger.

**Accounting Treatment (see page 70)**

The merger will be treated as a purchase for financial accounting purposes.

**Material Tax Consequences of the Merger (see page 118)**

For U.S. federal income tax purposes, a Crown shareholder will not recognize any gain or loss as a result of the exchange of the Crown shares for the PREIT shares except to the extent of any cash received in lieu of a fractional share. A Crown shareholder will have an aggregate tax basis in the PREIT shares received in the merger equal to the shareholder's aggregate basis in the Crown shares exchanged for the PREIT shares and the shareholder's holding period for the PREIT shares received in the exchange will include the holding period of the Crown shares exchanged therefor. For U.S. federal income tax purposes, PREIT shareholders will not recognize either gain or loss as a result of the merger.

**Trustees and Executive Officers of PREIT After the Merger (see page 64)**

Following the merger, the nine current trustees of PREIT, including Mr. Roberts if he is elected at the special meeting, will remain as trustees of the combined company. In addition, following the merger, Mark E. Pasquerilla and Donald F. Mazziotti will become trustees of the combined company. Messrs. Pasquerilla and Mazziotti will be appointed at the first regular meeting of PREIT's board of trustees following the effective time of the merger.

Following the merger, the current executive officers of PREIT will remain as executive officers of PREIT. No current executive officers of Crown will become executive officers of PREIT following the merger.

**Interests of Trustees and Executive Officers of Crown and PREIT in the Merger (see page 65)**

In considering the recommendation of the Crown board with respect to the merger, Crown shareholders should be aware that some Crown trustees and executive officers have interests in the merger that differ from, or are in addition to, the interests of Crown shareholders generally.

*Trustees of PREIT After the Merger.* Under the merger agreement, Mr. Pasquerilla, Crown's chairman, chief executive officer and president, and Mr. Mazziotti, a member of Crown's board of trustees, will become members of the PREIT board of trustees in connection with the merger.

*Indemnification and Insurance.* The merger agreement provides that PREIT and PREIT Partnership will provide exculpation and indemnification for officers, directors and trustees of Crown or any Crown subsidiary which is the same as the exculpation and indemnification provided by Crown and Crown Partnership immediately before completion of the merger, with specified limited exceptions. The merger agreement also provides that PREIT and PREIT Partnership will indemnify and hold harmless those persons after the merger to the fullest extent permitted by law. In addition, PREIT has agreed to purchase directors' and officers' liability insurance coverage for the benefit of those individuals currently covered by Crown's insurance for a period of six years after the merger.

*Equity-Based Awards.*

Crown Trustees. One of the four Crown trustees who are not employees of Crown holds an aggregate of 30,000 options to purchase Crown common shares with a weighted average exercise price of \$7.58 per share. As of the effective time of the merger, all of these options automatically will be converted into options to purchase a number of PREIT common shares equal to the number of Crown options multiplied by the exchange ratio of 0.3589, with an exercise price equal to the exercise price of the Crown options divided by 0.3589. All of these options already are vested according to

their terms, and the substituted PREIT options will remain exercisable until the earlier of six months after the effective time of the merger or the expiration date of the original Crown options. The expiration date will be determined without regard to the trustee's resignation or termination of service.

**Crown Executive Officers.** The eight Crown executive officers, three of whom also are Crown trustees, are employed by Crown Partnership and seven of these executive officers hold vested options to purchase an aggregate of 552,000 units of limited partner interest in Crown Partnership, which we refer to as Crown Partnership Units, with a weighted average exercise price of \$7.60 per unit and unvested options to purchase an aggregate of 171,000 Crown Partnership Units with a weighted average exercise price of \$5.73 per unit. Mark E. Pasquerilla never participated in Crown's option plan and holds no options. As of the effective time of the merger, all of these options automatically will be converted into options to purchase a number of PREIT common shares equal to the number of Crown Partnership options multiplied by the exchange ratio of 0.3589, with an exercise price equal to the exercise price of the Crown Partnership options divided by 0.3589, and will be treated as follows:

if the Crown executive officer is hired by PREIT and remains an employee of PREIT on the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the Crown executive officer's unvested options will vest on that date. These options, together with the Crown executive officer's previously vested options, will remain exercisable according to their original terms as if the Crown executive officer's employment with Crown Partnership had not terminated;

if the Crown executive officer is hired by PREIT but his employment is terminated by PREIT other than for cause before the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the Crown executive officer's unvested options will vest on the date of termination. These options will remain exercisable until the earlier of six months after the termination or the scheduled expiration date of the option, and the Crown executive officer's previously vested options will remain exercisable for the period following such termination provided for by the terms of the options; or

if the Crown executive officer is not offered employment with PREIT or is offered employment by PREIT at a location that is more than 25 miles from his position with Crown Partnership or conditioned upon a material reduction in pay and the Crown executive officer does not accept the offer, then the Crown Partnership executive officer's unvested options will vest at the effective time of the merger. These options, together with his previously vested options, will remain exercisable until the earlier of six months after the effective time of the merger or the scheduled expiration date of the options. The scheduled expiration date will be determined without regard to the executive officer's termination of employment.

**Employment Continuation Agreements.** Crown Partnership has entered into "employment continuation agreements" with the eight Crown executive officers that provide for severance benefits under specified circumstances in the event of a change of control or a potential change of control. Upon completion of the merger and regardless of whether the Crown executive officers are hired by PREIT, the Crown executive officers will be entitled to, and PREIT will be required to provide, cash severance payments and the continuation of benefits to the Crown executive officers as provided in the employment continuation agreements. Under the employment continuation agreements, the eight executive officers of Crown will be entitled to receive cash payments and benefits, estimated assuming that the merger will close on November 13, 2003, ranging from approximately \$342,000 to \$1.14 million, or approximately \$5.1 million in the aggregate.

If any amount or benefit paid to an executive officer under his employment continuation agreement or otherwise would result in an excise tax imposed by Section 4999 of the Internal Revenue Code, and if the executive officer would receive a greater net after-tax amount if the total

amount payable to the executive officer were reduced by the amount necessary to avoid triggering the excise tax, then the amount payable to the executive officer under the employment continuation agreement will be reduced by the amount necessary to avoid triggering the excise tax. Neither Crown nor PREIT has made a final determination that any reduction to payments will be required to avoid imposition of the excise tax under Section 4999 of the Internal Revenue Code.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

*Arrangements with Mark E. Pasquerilla and Affiliates.* PREIT has entered into, or will enter into in connection with the merger, various arrangements with Mark E. Pasquerilla and certain affiliates of Mr. Pasquerilla, including a tax protection agreement, a shareholders agreement, a registration rights agreement, an indemnification agreement, a non-competition agreement and a standstill agreement. See "Agreements with Mark E. Pasquerilla and Affiliates" beginning on page 109.

*Arrangements with Edward A. Glickman.* In considering the recommendation of the PREIT board with respect to the merger, PREIT shareholders should be aware that, as described below, Edward A. Glickman, executive vice president and chief financial officer of PREIT, may have interests in the merger that are in addition to the interests of PREIT shareholders generally. Mr. Glickman holds 5,000 restricted shares, 10,000 dividend equivalent rights and 20,000 options to purchase PREIT common shares scheduled to vest on January 1, 2004 which will automatically vest immediately upon the merger. In addition, under the terms of Mr. Glickman's employment agreement, Mr. Glickman is entitled to terminate his employment with PREIT for good reason as a result of the merger, entitling him, among other things, to a payment of three times the sum of his current salary plus the average of his annual bonus over the last three years if he is not offered a new three year employment agreement following the merger providing for the same title and responsibilities and the same or greater compensation and benefits as in effect immediately before the change of control.

### Crown and PREIT Voting Agreements

Mark E. Pasquerilla and two of his affiliates and each of the independent trustees and executive officers of Crown (except for Ronald P. Rusinak and John A. Washko) have entered into a voting agreement with PREIT and PREIT Partnership and each of the independent trustees and executive officers of PREIT has entered into a voting agreement with Crown and Crown Partnership agreeing to vote all Crown common shares and, as applicable, Crown Partnership Units, and PREIT common shares and, as applicable, PREIT Partnership Units, owned of record, respectively, by each of them as of the record date for the applicable special meeting in favor of the merger proposal.

As of the record date for the Crown special meeting, the independent trustees and executive officers of Crown (except for Ronald P. Rusinak and John A. Washko) and Mark E. Pasquerilla and his affiliates owned a total of 3,261,835 Crown common shares (3,129,625 of which were owned by Mr. Pasquerilla and his affiliates) representing approximately 10.03% of the outstanding Crown common shares. As of the record date for the Crown special meeting, Mr. Pasquerilla and his affiliates owned a total of 9,956,398 Crown Partnership Units, representing 100% of the outstanding Crown Partnership Units other than those owned by Crown. As of the record date for the PREIT special meeting, the independent trustees and executive officers of PREIT owned a total of 830,882 PREIT common shares representing approximately 3.54% of the outstanding PREIT common shares. As of the record date for the PREIT special meeting, the independent trustees and executive officers of PREIT owned a total of 951,757 PREIT Partnership Units entitled to vote on the merger, representing over 68% of the PREIT Partnership Units entitled to vote on the merger.

### Comparative Per Share Market Price (see page 117)

PREIT common shares are listed on the New York Stock Exchange under the symbol "PEI" and Crown common shares are listed on the New York Stock Exchange under the symbol "CWN". The following table presents the last reported sale price per PREIT common share and Crown common share, as reported on the New York Stock Exchange Composite Transaction reporting system on May 13, 2003, the last full trading day prior to the public announcement of the merger, and on

13

September 30, 2003, the last full trading day for which this information could be obtained prior to the date of this joint proxy statement/prospectus. The following table also presents the Crown common share equivalent based on the value of PREIT common shares on May 13, 2003, the last full trading day prior to the public announcement of the merger, and on September 30, 2003, the last full trading day for which this information could be obtained prior to the date of this joint proxy statement/prospectus multiplied by the 0.3589 exchange ratio.

Date	PREIT Common Shares	Crown Common Shares	Crown Common Share Equivalent
May 13, 2003	\$ 28.00	\$ 10.75	\$ 10.05
September 30, 2003	\$ 33.45	\$ 11.90	\$ 12.01

You are encouraged to obtain current market quotations for PREIT and Crown common shares.

### Differences in the Rights of Shareholders (see page 151)

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The rights of holders of Crown common and preferred shares currently are governed by the Maryland REIT Law and Crown's declaration of trust and by-laws. Following the closing of the merger, the rights of former holders of Crown shares who receive PREIT shares in the merger will be governed by Pennsylvania business trust law and PREIT's trust agreement and by-laws.

14

### Summary Historical Consolidated Financial Data (see page F-1)

#### PREIT

The following table sets forth selected consolidated and combined financial and operating data on a historical basis for PREIT. The selected operating data and cash flows data set forth below for the fiscal years ended December 31, 2002, 2001 and 2000 and the balance sheet data as of December 31, 2002 and 2001, have been derived from historical consolidated financial statements of PREIT, audited by KPMG LLP, independent auditors. The selected operating data and cash flows data set forth below for the fiscal years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998 have been derived from historical consolidated financial statements of PREIT, audited by Arthur Andersen LLP, who has ceased operations. The selected operating and cash flows data at and for the six months ended June 30, 2003 and 2002 have been derived from the unaudited financial statements of PREIT. You should read the following information together with the consolidated financial statements and financial statement notes of PREIT incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192.

	For the six months ended June 30,		For the fiscal years ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(Dollars in thousands, except per share data)							
<b>Operating Data:</b>							
Total revenues	\$ 54,494	\$ 33,382	\$ 75,055	\$ 62,334	\$ 51,293	\$ 42,847	\$ 23,569
Income from continuing operations	9,773	4,016	11,838	11,613	24,245	11,856	10,601
Net income	149,615	8,169	23,678	19,789	32,254	20,739	23,185
Basic income from continuing operations per share	\$ 0.59	\$ 0.25	\$ 0.73	\$ 0.79	\$ 1.81	\$ 0.89	\$ 0.80
Diluted income from continuing operations per share	0.58	0.25	0.72	0.79	1.81	0.89	0.80
Basic net income per share	9.02	0.51	1.47	1.35	2.41	1.56	1.74
Diluted net income per share	8.87	0.51	1.44	1.35	2.41	1.56	1.74
<b>Weighted average number of shares outstanding:</b>							
Basic	16,579	16,072	16,162	14,657	13,403	13,318	13,297
Diluted	16,874	16,107	16,388	14,684	13,403	13,318	13,314
<b>Cash Flows:</b>							
Net cash provided by operating activities	\$ 33,601	\$ 14,520	\$ 28,541	\$ 37,655	\$ 44,473	\$ 29,437	\$ 31,302
Net cash (used in) investing activities	(4,774)	(23,937)	(24,047)	(25,428)	(36,350)	(64,873)	(159,734)
Net cash (used in) provided by financing activities	(33,668)	7,924	(1,199)	(8,060)	(9,197)	31,784	134,830
<b>Balance Sheet Data (at end of period):</b>							
Investments in real estate, at cost	\$ 967,930	\$ 703,844	\$ 739,429	\$ 636,294	\$ 612,266	\$ 577,521	\$ 509,406
Total assets	1,106,013	670,340	703,663	602,628	576,663	547,590	481,615
Total mortgage, bank and construction loans payable	647,738	428,643	450,551	360,373	382,396	364,634	302,276
Minority Interest	61,828	32,553	32,472	36,768	29,766	32,489	28,045
Total shareholders' equity	324,659	183,843	188,013	180,285	143,906	133,412	137,082

**Crown**

The following table sets forth selected consolidated and combined financial and operating data on a historical basis for Crown. The selected operating data and cash flows data set forth below for the fiscal years ended December 31, 2002, 2001 and 2000 and the balance sheet data as of December 31, 2002 and 2001, have been derived from historical consolidated financial statements of Crown, audited by Ernst & Young LLP, independent auditors. The selected operating data and cash flows data set forth below for the fiscal years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998 have been derived from historical consolidated financial statements of Crown, audited by Arthur Andersen LLP, who has ceased operations. The selected operating and cash flows data at and for the six months ended June 30, 2003 and 2002 have been derived from the unaudited financial statements of Crown. You should read the following information together with the consolidated financial statements and financial statement notes of Crown incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192.

	For the six months ended June 30,		For the fiscal years ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(Dollars in thousands, except per share data)							
<b>Operating Data:</b>							
Total revenues	\$ 99,908	\$ 90,803	\$ 186,004	\$ 178,603	\$ 173,186	\$ 162,170	\$ 151,196
<b>Operating Costs:</b>							
Property operating expenses	(38,218)	(33,567)	(66,756)	(62,877)	(60,573)	(57,839)	(56,074)
Depreciation and amortization	(23,755)	(21,673)	(44,375)	(46,888)	(45,425)	(42,010)	(39,291)
General and administrative expenses	(5,978)	(2,870)	(6,822)	(5,393)	(5,093)	(4,663)	(4,971)
Restructuring costs					\$ (369)	\$ (2,251)	
Operating income before interest	31,957	32,693	68,051	63,445	61,726	55,407	50,860
Interest expense	(25,411)	(25,317)	(50,736)	(52,702)	(54,306)	(47,955)	(42,325)
Loss on early extinguishment of debt		(4,314)	(4,314)		(243)		(22,512)
Gains on sale of property	83	94	369	437	700	1,761	1,210
Minority interest in operating partnership	(6,343)	(2,756)	(5,351)	(4,999)	(664)	1,734	8,363
Income (loss) from continuing operations before change in accounting method and discontinued operations	286	400	8,019	6,181	7,213	10,947	(4,404)
Cumulative effect of change in accounting method							(1,659)
Loss from discontinued operations	(14,022)	(417)	(304)	(975)	(1,234)	(1,672)	(2,576)
Net income (loss)	(13,736)	(17)	7,715	5,206	5,979	9,275	(8,639)
Dividends on preferred shares	(6,806)	(6,806)	(13,613)	(13,613)	(13,695)	(13,750)	(13,750)
Net (loss) applicable to common shares	\$ (20,542)	\$ (6,823)	\$ (5,898)	\$ (8,407)	\$ (7,716)	\$ (4,475)	\$ (22,389)
<b>Per share data (after minority interest):</b>							
Loss from continuing operations before discontinued operations, net of preferred dividends	\$ (0.20)	\$ (0.23)	\$ (0.19)	\$ (0.28)	\$ (0.25)	\$ (0.10)	\$ (0.69)
Loss from discontinued operations	(0.44)	(0.02)	(0.01)	(0.04)	(0.04)	(0.07)	(0.10)
Cumulative effect of change in accounting method							(0.06)
Net (loss)	\$ (0.64)	\$ (0.25)	\$ (0.20)	\$ (0.32)	\$ (0.29)	\$ (0.17)	\$ (0.85)
Weighted average common shares outstanding basic and diluted	32,110	26,918	29,480	26,208	26,208	26,208	26,393



Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	For the six months ended June 30,		For the fiscal years ended December 31,				
Weighted average common shares and Crown Partnership Units outstanding basic and diluted	40,018	36,874	39,436	36,164	36,164	36,164	36,317

**Cash Flows:**

Net cash provided by operating activities	\$ 31,637	\$ 19,600	\$ 67,549	\$ 68,392	\$ 58,286	\$ 56,939	\$ 56,984
Net cash (used in) investing activities	(16,006)	(7,394)	(99,075)	(22,482)	(30,625)	(49,683)	(104,725)
Net cash (used in) provided by financing activities	(18,316)	(23,069)	(28,649)	(43,524)	(30,219)	(3,597)	51,781

16

As of June 30,		As of December 31,				
2003	2002	2002	2001	2000	1999	1998

(Dollars in thousands, except per share data)

**Balance Sheet Data (at end of period):**

Income-producing properties (before accumulated depreciation and amortization)	\$ 1,281,481	\$ 1,163,259	\$ 1,271,742	\$ 1,171,117	\$ 1,157,998	\$ 1,120,071	\$ 1,071,564
Total assets	835,153	798,693	879,432	826,780	855,501	875,208	869,288
Total debt and liabilities	795,593	703,852	796,087	761,657	758,929	746,630	708,047
Minority Interest		(3,182)	(3,265)	(3,303)	(3,050)	2,727	11,724
Total shareholders' equity	39,560	94,841	83,345	65,123	96,572	125,851	149,517

**Equivalent Per Share Data**

We have summarized below specified per common share information for our respective companies on a historical basis, pro forma combined basis and pro forma combined equivalent basis. The pro forma combined amounts are based on the purchase method of accounting. The Crown per common share pro forma combined equivalents are calculated by multiplying the pro forma combined per common share amounts by the common share exchange ratio of 0.3589. You should read the following information together with the consolidated financial statements and historical and pro forma financial statements included or incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192.

	For the six months ended June 30, 2003		For the year ended December 31, 2002	
	Basic	Diluted	Basic	Diluted
<b>Income (loss) from continuing operations per common share before extraordinary items:</b>				
PREIT	\$ 0.59	\$ 0.58	\$ 0.73	\$ 0.72
Crown	(0.20)	(0.20)	(0.19)	(0.19)
PREIT and Crown pro forma combined before extraordinary items	0.40	0.40	1.45	1.43
Crown pro forma combined equivalent	0.14	0.14	0.52	0.51

**Cash distributions declared per common share:**

PREIT	\$ 1.02	\$ 2.04
Crown	0.43	0.85
PREIT and Crown pro forma combined	1.08	2.16
Crown pro forma combined equivalent	0.39	0.78

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	<u>For the six months ended June 30, 2003</u>	<u>For the year ended December 31, 2002</u>
<b>Shareholders' equity (book value) per common share (at end of period):</b>		
PREIT	\$ 19.28	\$ 11.26
Crown	(2.61)	(1.26)
PREIT and Crown pro forma combined	26.74	N/A
Crown pro forma combined equivalent	9.60	N/A

17

**Summary Unaudited Pro Forma Condensed Combined Financial Data (see page F-1)**

The following table sets forth the summary unaudited pro forma condensed combined financial data for PREIT and Crown as a combined entity, giving effect to PREIT's recently completed transactions and PREIT's merger with Crown as if they had occurred on the dates indicated after giving effect to the pro forma adjustments. The unaudited pro forma financial information assumes that the completed transactions and the merger with Crown were completed as of June 30, 2003 for the purposes of the unaudited pro forma consolidated balance sheet data and as of the beginning of the periods presented for purposes of the unaudited pro forma consolidated operating data. The unaudited pro forma financial information does not take into account the effects of PREIT's recently completed equity offering. See "PREIT Recent Developments Equity Offering" on page 27.

You should read the information below together with all other financial information and analysis presented or incorporated by reference in this joint proxy statement/prospectus, including the sections captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and PREIT and Crown's historical financial statements and related notes incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" on page 192. The unaudited pro forma consolidated financial information is presented for information purposes only and does not purport to represent what the combined company's operating data or balance sheet data would have been had the indicated transactions been completed on the dates indicated above, or to project the combined company's operating results or financial position for any future period. The unaudited pro forma adjustments are based on available information and upon assumptions that PREIT believes are reasonable.

	<u>Pro Forma for the six months ended June 30, 2003</u>	<u>Pro Forma for the year ended December 31, 2002</u>
<b>Operating Data:</b>		
<b>Revenues</b>		
Real estate revenue		
Base rent	\$ 130,057	\$ 261,677
Expense reimbursements	61,763	115,973
Percentage rent	4,135	10,476
Lease termination revenue	1,278	3,427
Other real estate revenue	3,559	6,395
	<u>200,792</u>	<u>397,948</u>
Total real estate revenue	200,792	397,948
Management company revenue	6,648	11,453
Interest and other income	335	711
	<u>207,775</u>	<u>410,112</u>
Total revenues	207,775	410,112
<b>Expenses</b>		
Property operating expenses	(75,800)	(143,108)
Depreciation and amortization	(46,536)	(85,597)
General and administrative expenses	(19,576)	(31,079)

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	Pro Forma for the six months ended June 30, 2003	Pro Forma for the year ended December 31, 2002
	(141,912)	(259,784)
Interest expense	(54,157)	(104,584)
Equity in income of partnerships and joint ventures	2,953	5,748
Gains on sales of interests in real estate	5,596	10,041
Income before minority interest and discontinued operations	20,255	61,533
Minority interest in properties	(413)	(1,244)
Minority interest in operating partnership	(1,734)	(6,441)
Income from continuing operations	\$ 18,108	\$ 53,848
Basic income from continuing operations per share	\$ 0.40	\$ 1.45
Diluted income from continuing operations per share	\$ 0.40	\$ 1.43
Weighted average number of shares outstanding:		
Basic	28,092	27,675
Diluted	28,538	28,052
<b>Balance Sheet Data (at the end of period):</b>		
Investments in real estate, at cost	\$ 2,449,256	
Total assets	2,590,415	
Total debt	1,552,532	
Minority interest	158,308	
Total shareholders' equity	757,348	

18

## RISK FACTORS

*In addition to the information which is incorporated by reference in this joint proxy statement/prospectus from PREIT's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2003 and the other information included in this document, including the matters addressed in "Cautionary Statement Regarding Forward-Looking Statements" on page 25 you should carefully consider the following risk factors before deciding whether or not to approve the merger agreement, the merger and the related transactions.*

### **Crown common shareholders may receive PREIT common shares in the merger with a market value lower or higher than expected.**

Crown common shareholders will receive 0.3589 PREIT common shares in the merger for each Crown common share they own at the time of the closing of the merger. The market price of PREIT common shares at the time of the merger closing may vary significantly from the price on the date of the merger agreement signing or from the price on either the date of this joint proxy statement/prospectus or the date of the PREIT and Crown special meetings. These price variations may arise due to, among other things, changes in the business, operations, financial condition and prospects of PREIT, market assessments of the likelihood that the merger will be completed and the timing of its completion, demand for retail space in the Mid-Atlantic region and other markets, the financial condition of current or prospective tenants, interest rates, general market and economic conditions, factors affecting the retail industry in general and other factors. During the 12-month period ending on September 30, 2003, the most recent date practicable before the mailing of this joint proxy statement/prospectus, the closing price per share of PREIT common shares varied from a low of \$23.18 to a high of \$33.45 and ended that period at \$33.45. Historical trading prices are not necessarily indicative of future performance.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The exchange ratio for Crown common shares to be converted into PREIT common shares in the merger was fixed at the time of the signing of the merger agreement and will not be adjusted based on changes in the trading price of PREIT common shares or Crown common shares before the closing of the merger. The merger agreement does not provide Crown or PREIT the right to terminate the merger agreement based upon fluctuations in the market price of PREIT common shares. Accordingly, increases in the market price of the PREIT common shares when compared with the market price at the time the merger agreement was signed could cause the total value of the consideration to be paid by PREIT to Crown common shareholders in the merger to be higher than expected, resulting in PREIT effectively paying a higher than expected amount in the merger. Alternatively, decreases in the market price of PREIT common shares when compared with the market price at the time the merger agreement was signed could cause Crown common shareholders to receive PREIT common shares in the merger with a market value lower than expected.

**The operations of PREIT and Crown may not be integrated successfully and intended benefits of the merger may not be realized, which could materially harm the combined company's operating results and financial condition.**

The merger involves the integration of two large and complex real estate businesses that currently operate independently. PREIT has retained the services of Generative Leadership Group and PricewaterhouseCoopers, LLP to assist with the integration of the Crown assets and personnel. In addition, PREIT recently acquired six shopping malls from The Rouse Company, which also must be integrated into PREIT's existing operations. Following the merger and the related transactions, the gross leasable area of PREIT owned, managed or leased retail properties will be approximately 115% higher than it was prior to the Rouse shopping mall acquisition. PREIT also recently completed the sale of all 19 properties in its multifamily portfolio. See "PREIT Recent Developments" on page 27.

19

---

The integration efforts required in connection with the merger and the Rouse shopping mall acquisition, together with PREIT's continuing efforts to transform its strategic focus to ownership of retail properties, are substantial and may cause disruptions in PREIT's operations and divert management's attention away from day-to-day operations, which could impair PREIT's relationships with its current tenants and employees. In addition, the Crown merger poses specific risks for the ongoing operations of PREIT following completion of the merger, including that:

PREIT may not achieve the expected operating efficiencies, value-creation potential, economies of scale or other benefits;

PREIT may not have adequate financial, personnel and other resources to successfully handle its substantially increased operations;

PREIT may not be successful in leasing space in Crown properties acquired in the merger;

PREIT may not be able to successfully take advantage of or maintain Crown's relationships with tenants, in particular if key personnel of Crown with longstanding relationships with Crown tenants terminate their employment or are terminated in connection with the merger;

the combined portfolio may not perform at the level PREIT anticipates;

PREIT may experience difficulties and incur unforeseen expenses in connection with assimilating and retaining Crown employees and assimilating Crown's business and properties; and

PREIT may experience problems and incur unforeseen expenses in connection with upgrading and expanding its systems and processes required as a result of the Rouse acquisition and the Crown merger.

If PREIT fails to integrate successfully Crown and/or fails to realize the intended benefits of the merger, PREIT's operating results and financial condition following completion of the merger may be materially harmed.

**PREIT's operating performance may be adversely affected following the merger if PREIT chooses not to sell specified assets acquired in the merger.**

As a result of the merger, PREIT will acquire six Crown properties which have occupancy rates and sales volume substantially lower than that of the remainder of Crown's properties being acquired in the merger. As of June 30, 2003, these six non-core assets had an in-line occupancy rate of approximately 76.8%. In-line sales for the year ended December 31, 2002 were approximately \$217 per square foot. The remaining 20 Crown wholly-owned malls had an in-line occupancy rate as of June 30, 2003 of approximately 93.7%. In-line sales for the year ended December 31, 2002 were approximately \$286 per square foot. After the merger, PREIT intends to pursue the repossession and potential disposition of these properties. PREIT currently expects to make investments in some of these properties in order to reposition them for potential sale. However, PREIT cannot predict whether it will be able to sell any property for the price or on the terms set by PREIT. PREIT also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. In addition, whether or not PREIT ultimately sells these properties, it may not recover its investment in these properties, which could harm its financial condition.

**Crown's outstanding debt obligations could materially adversely affect PREIT's future financial condition and operating results.**

As of June 30, 2003, Crown had approximately \$753.7 million in total debt outstanding, all of which was secured by its real estate assets and \$174.7 million of which was subject to variable interest rates. This excludes Crown's pro rata portion of the \$18.4 million of outstanding debt on the Palmer

20

---

Park Mall Venture, a joint venture between PREIT and Crown which holds title to the Palmer Park Mall. As part of the merger, PREIT will assume the debt of Crown, which will increase PREIT's debt to total market capitalization from approximately 46.5% to approximately 52.8% (giving effect to PREIT's recently completed equity offering). See "PREIT Recent Developments Equity Offering" on page 27. While PREIT currently expects to repay a portion of Crown's outstanding debt with proceeds from additional debt financings which PREIT is currently negotiating with prospective lenders, we cannot assure you that PREIT can obtain additional debt financings on favorable terms, or at all. Following the merger, PREIT will also be obligated to pay a quarterly dividend to the holders of the newly issued PREIT 11% preferred shares of \$1.375 per share. PREIT's increased leverage as a result of the Crown merger could have negative consequences to PREIT shareholders, including:

requiring PREIT to use a significant portion of its cash flow from operations to make interest and principal payments on debt rather than for other purposes such as working capital, capital expenditures or dividends;

harming PREIT's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes;

limiting PREIT's flexibility to plan for or react to changes in business and economic conditions; and

making PREIT more vulnerable to a downturn in its business or the economy generally.

As a result of these debt obligations, PREIT may not have sufficient cash flow from operations to meet required payments of principal and interest, pay distributions on its securities at the recently announced increased rates, which could affect its ability to qualify as a REIT, or make necessary investments in new business initiatives, including investments necessary to reposition the six non-core Crown assets for sale.

PREIT's ability to refinance Crown's debt may be adversely affected by increases in interest rates. In addition, higher interest rates would increase PREIT's interest expense under the variable interest rate debt assumed from Crown.

**If the merger does not qualify as a tax free reorganization, Crown shareholders may recognize a taxable gain.**

Neither Crown nor the Crown shareholders are expected to recognize taxable gain as a result of the merger because the merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. PREIT and Crown received legal opinions dated as of May 13, 2003 that the merger will be treated as a tax-free reorganization and the delivery of opinions reaffirming these opinions on the date of the pre-merger transactions is a condition to the merger. However, these legal opinions will not be binding on the Internal Revenue Service. If

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

for any reason the merger does not qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code, then each Crown shareholder would recognize gain or loss equal to the difference between the sum of the fair market value of the PREIT common shares and PREIT 11% preferred shares and cash in lieu of fractional shares received by the shareholder in the merger and the shareholder's adjusted tax basis in the Crown shares exchanged therefor. See "Material Federal Income Tax Consequences Relating to the Merger" on page 118.

### **The merger will result in reductions in distributions per share for Crown common shareholders after the merger.**

Assuming PREIT makes quarterly cash dividends at the recently announced rate of \$0.54 per share after the merger, this dividend, from a Crown common shareholder's perspective, would be equivalent

21

---

to a quarterly distribution payment of \$0.1938 per Crown common share based on the exchange ratio of 0.3589, which is approximately 9.86% less than Crown's most recent quarterly dividend of \$0.2150 per common share.

### **The trustees and executive officers of Crown, including Mark E. Pasquerilla, have interests in the completion of the merger that may conflict with the interests of the securityholders of Crown.**

In considering the recommendation of the Crown board of trustees with respect to the principal terms of the merger, the merger agreement and the related transactions, Crown shareholders should consider that some Crown trustees and executive officers, including Mr. Pasquerilla, chairman, chief executive officer and president of Crown, have interests in and will receive benefits from the merger that differ from, or are in addition to, and therefore may conflict with the interests of Crown shareholders generally, including the following:

Mr. Pasquerilla and Mr. Mazziotti will become trustees of PREIT;

As of September 1, 2003, seven of the eight Crown executive officers, three of whom also are Crown trustees, hold vested options to purchase an aggregate of 552,000 Crown Partnership Units with a weighted average exercise price of \$7.60 per unit, and unvested options to purchase an aggregate of 171,000 Crown Partnership Units with a weighted average exercise price of \$5.73 per unit. As of the effective time of the merger, all of these options automatically will be converted into options to purchase a number of PREIT common shares equal to the number of Crown Partnership options multiplied by the exchange ratio of 0.3589, with an exercise price equal to the exercise price of the Crown Partnership options divided by 0.3589. All or substantially all of the unvested options held by the Crown executive officers are expected to vest in connection with the merger;

Eight executive officers of Crown will be entitled to receive estimated cash payments and benefits ranging from approximately \$342,000 to \$1.14 million, or approximately \$5.1 million in the aggregate under employment continuation agreements entered into with Crown Partnership;

Mr. Pasquerilla and specified affiliates of Mr. Pasquerilla have entered into various arrangements with PREIT in which they hold specified rights, including a tax protection agreement, a shareholders agreement, a registration rights agreement, an indemnification agreement, a non-competition agreement and a standstill agreement. See "Agreements with Mark E. Pasquerilla and Affiliates" beginning on page 109; and

Current and former officers and trustees of Crown have continuing rights to indemnification with respect to acts and omissions in their capacities as Crown trustees and officers and are entitled to directors' and officers' insurance coverage for a period of six years following the merger under the terms of the merger agreement.

### **PREIT or Crown may incur substantial expenses and payments if the merger does not occur, which could materially harm their financial condition and discourage other potential acquirors of Crown which might otherwise be desirable to Crown's shareholders.**

PREIT and Crown already have incurred substantial expenses in connection with the merger. Neither PREIT nor Crown can assure you that the merger will be consummated. The merger agreement provides for Crown or PREIT to pay a termination fee of \$20 million if the merger

agreement is terminated by Crown or PREIT under specified circumstances. The merger agreement also provides for Crown or PREIT to pay termination expenses of \$7 million if the merger agreement is terminated by Crown or PREIT under specified circumstances or \$3.5 million if the merger agreement is terminated under other specified circumstances. Any of these payment obligations could materially harm the financial condition of the company incurring the payment obligations.

The \$20 million termination fee represents approximately 1.53% of the approximate \$1.304 billion market capitalization of Crown and approximately 1.26% of the approximate \$1.592 billion market capitalization of PREIT at the time of signing of the merger agreement. This \$20 million termination fee may discourage some third party proposals to acquire Crown that Crown shareholders may otherwise find desirable to the extent that a potential acquiror would not be willing to assume the \$20 million termination fee. The \$20 million termination fee also could adversely affect the ability of PREIT to engage in another transaction that did not include the Crown merger if PREIT incurred such payment obligation upon a termination. See "The Merger Agreement Termination of the Merger Agreement" beginning on page 91.

**After the merger, Mr. Pasquerilla will exercise influence over PREIT and may delay, defer or prevent PREIT from taking actions that would be beneficial to its shareholders.**

Prior to the merger, no shareholder of PREIT owned more than 5% of PREIT's outstanding common shares on a fully diluted basis assuming the redemption of PREIT Partnership Units for PREIT common shares. Following the merger, Mr. Pasquerilla and his affiliates will own approximately 6.31% of PREIT's outstanding common shares assuming the redemption of their PREIT Partnership Units for PREIT common shares. Mr. Pasquerilla also will become a member of the board of trustees. Accordingly, Mr. Pasquerilla may be able to exercise influence over the outcome of certain matters such as decisions relating to the election of the board of trustees and the determination of PREIT's day to day corporate and management policies, and possibly over the outcome of any proposed merger or consolidation of PREIT. Mr. Pasquerilla's ownership interest in PREIT may discourage third parties from seeking to acquire control of PREIT which may adversely affect the market price of PREIT's common shares. As a condition to the merger, Mr. Pasquerilla and certain of his affiliates will enter into a standstill agreement which would limit their rights in connection with, among other things, a proposed change in control of PREIT. See "Agreements with Mark E. Pasquerilla and Affiliates The Standstill Agreement" beginning on page 114. However, we cannot assure you that Mr. Pasquerilla and his affiliates will abide by the terms of the standstill agreement, and the standstill agreement will not prevent Mr. Pasquerilla from voting his shares or taking other actions with respect to matters not covered by the standstill agreement.

**PREIT could be disqualified as a REIT or have to pay taxes if Crown does not qualify as a REIT at the time of the merger.**

If Crown failed to qualify as a REIT at the time of the merger, PREIT may have undistributed "C corporation earnings and profits." If that occurred and Crown did not distribute the earnings and profits prior to the merger transaction, PREIT may not qualify as a REIT. In addition, PREIT might be liable for taxes owed by Crown as a result of its failure to qualify as a REIT for years prior to the merger. Finally, if Crown did not qualify as a REIT at the time of the merger, PREIT would be required to pay corporate income tax on any gain existing at the time of the merger transaction on assets acquired in the transaction if those assets are sold within ten years after the transaction. This would be the case even though the merger is expected to qualify as a "tax-free reorganization." While PREIT will receive an opinion from Reed Smith LLP that Crown qualifies as a REIT at the time of the merger, this opinion will not be binding on courts or the Internal Revenue Service.

**Recent change in taxation of corporate dividends may adversely affect the value of PREIT's shares.**

The Jobs and Growth Tax Relief Reconciliation Act of 2003 that was enacted into law on May 28, 2003, among other things, generally reduces to 15% the maximum marginal rate of federal tax payable by individuals on dividends received from a regular C corporation. This reduced tax rate, however, will not apply to dividends paid to individuals by a REIT on its shares, except for certain limited amounts. The earnings of a REIT that are distributed to its shareholders will still generally be subject to less

federal income taxation than earnings of a non-REIT C corporation that are distributed to its shareholders net of corporate-level income tax. The 2003 Tax Act, however, could cause individual investors to view shares of regular C corporations as more attractive relative to shares of REITs than was the case prior to the enactment of the legislation because the dividends from regular C corporations will generally be taxed at a lower rate while dividends from REITs will generally be taxed at the federal income tax rate applicable to ordinary income, up to a maximum marginal rate of 35%. PREIT cannot predict what effect, if any, the enactment of this legislation may have on the value of the stock of REITs in general or on the value of PREIT's common shares in particular, either in terms of price or relative to other investments.

---

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

PREIT and Crown have each made forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this document, and in documents that are incorporated by reference in this joint proxy statement/prospectus, that are subject to risks and uncertainties. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and other matters that are not historical facts. These forward-looking statements refer to PREIT's and Crown's current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause future events and achievements or results to differ materially from those expressed by the forward-looking statements. Many factors, some of which are discussed elsewhere in this joint proxy statement/prospectus and in the documents incorporated by reference in this joint proxy statement/prospectus, could affect the future financial results of PREIT and could cause actual results to differ materially from those expressed in forward-looking statements contained or incorporated by reference in this document. Important factors that could cause actual results to differ materially from current expectations reflected in these forward-looking statements include, among others, the factors discussed under the caption "Risk Factors" beginning on page 19 and in filings made by PREIT and Crown with the Securities and Exchange Commission incorporated in this joint proxy statement/prospectus.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. The future results and shareholder values of PREIT following completion of the merger may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the ability of PREIT and Crown to control or predict. For these forward-looking statements, PREIT and Crown claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. PREIT and Crown disclaim any duty or obligation to update or revise any forward-looking statements to reflect new information, future events or otherwise.

---

**RATIO OF COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS TO EARNINGS**

PREIT's ratio of combined fixed charges and preference dividends to earnings for the fiscal years ended December 31, 2002, 2001, 2000, 1999 and 1998 and for the six-month period ended June 30, 2003 were as follows:

Six months ended June 30, 2003	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999	Year ended December 31, 1998
1.34	1.92	2.07	2.05	2.04	2.93

The ratio of combined fixed charges and preference dividends to earnings were computed by dividing PREIT's earnings by its fixed charges. PREIT has not had any outstanding preferred shares and consequently has not made any preference dividends during the periods described above. For this purpose, earnings have been calculated as net income from operations plus fixed charges, amortization of capitalized interest and distributed income of investments in unconsolidated joint ventures minus capitalized interest. Fixed charges are comprised of (1) interest charges, whether expensed or capitalized and (2) amortization of premiums, discounts and capitalized expenses relating to PREIT's indebtedness.

---

**PREIT RECENT DEVELOPMENTS**
**Equity Offering**

On August 21, 2003, PREIT issued 5.5 million PREIT common shares in a public offering at \$29.75 per share. On August 28, 2003, PREIT issued an additional 825,000 PREIT common shares at \$29.75 per share pursuant to an over-allotment option granted to the underwriter in connection with the offering. PREIT received net proceeds from the offering of approximately \$184 million, including the proceeds from the



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

exercise of the over-allotment option, and after deducting payment of the underwriting discount of \$0.25 per share and offering expenses. PREIT used approximately \$45.5 million of the net proceeds for the Willow Grove acquisition and approximately \$13.5 million for the IKEA transaction, each of which are described below. PREIT expects to use approximately \$65 million of the net proceeds to pay transaction costs incurred in connection with PREIT's acquisition of the Rouse mall portfolio and the proposed merger with Crown. PREIT expects to use the balance of the net proceeds to repay indebtedness. Prior to the offering, the board of trustees of Crown approved a waiver of the restriction contained in the merger agreement on PREIT's ability to issue PREIT common shares and other equity securities resulting in PREIT receiving net cash proceeds in excess of \$100 million in the aggregate to permit PREIT to issue up to 5.5 million PREIT common shares plus an additional 825,000 PREIT common shares pursuant to an over-allotment option, subject to specified conditions.

### **Willow Grove Acquisition**

On September 2, 2003, PREIT acquired the remaining limited partnership interest that it did not own in WG Holdings, L.P., a holding company which controls W.G. Park L.P., the entity that in turn owns Willow Grove Park, a retail mall in Willow Grove, Pennsylvania. PREIT purchased the remaining limited partnership interest in WG Holdings, L.P. from its joint venture partner Pennsylvania State Employee Retirement System, or PaSERS. On the same day, PREIT acquired a general partnership interest in WG Holdings, L.P. from an affiliate of PaSERS and thus obtained 100% of the ownership interest in WG Holdings, L.P. PREIT initially entered into the joint venture with PaSERS in February 2002 to acquire Willow Grove Park, and PREIT owned a 30% economic interest in WG Holdings, L.P. prior to the acquisition of PaSERS's interest. The purchase price of the remaining limited and general partnership interests in WG Holdings, L.P. was \$45.5 million in cash, which PREIT paid using a portion of the net proceeds of PREIT's recent equity offering. As of September 2, 2003, WG Holdings, L.P. had \$109.7 million in debt at an interest rate of 8.39% maturing in 2006. As a result of PREIT's acquisition of the remaining interest in WG Holdings, L.P. this debt will be reflected on PREIT's balance sheet in future periods.

### **IKEA Transaction**

On September 15, 2003, PREIT acquired from IKEA USA a 6.08 acre parcel containing a vacant, 160,000 square foot, two-story building adjacent to Plymouth Meeting Mall, Plymouth Meeting, Pennsylvania. The purchase price for the parcel was \$15.75 million, which included \$13.5 million in cash which PREIT paid to IKEA USA using a portion of the proceeds of its recent equity offering, and approximately 72,000 PREIT Partnership Units paid to affiliates of O'Neill Properties Group, L.P., which held an option to acquire the parcel.

### **Multifamily Portfolio Disposition**

On September 22, 2003, PREIT sold its 50% interest in its remaining joint venture multifamily properties for an aggregate of approximately \$8.6 million, inclusive of approximately \$3.5 million of assumed debt. PREIT had previously completed the sale of all of its 15 wholly-owned multifamily properties and two properties in which PREIT held a 50% joint venture interest.

27

---

## **THE PREIT SPECIAL MEETING**

PREIT is furnishing this joint proxy statement/prospectus to PREIT shareholders as part of the solicitation of proxies by the PREIT board of trustees for use at the PREIT special meeting.

### **Date, Time, Place and Purpose of PREIT Special Meeting**

The PREIT special meeting will be held on November 11, 2003 at 11:00 a.m., local time, at the Park Hyatt Philadelphia at the Bellevue, 200 South Broad Street, Philadelphia, PA. We may adjourn the PREIT special meeting for the purpose of, among other things, soliciting additional proxies. This joint proxy statement/prospectus and the accompanying proxy card are being mailed to PREIT shareholders on or about October 3, 2003.

The PREIT special meeting is being held to vote on (1) the approval of the merger agreement, the merger and the related transactions, (2) the election of a Class A trustee to serve on the PREIT board of trustees until the 2005 annual meeting of shareholders, and (3) the approval of the proposed 2003 equity incentive plan.

The PREIT board of trustees unanimously recommends that you vote FOR the approval of the merger agreement, the merger and the related transactions, FOR the election of John J. Roberts as a Class A trustee and FOR the approval of PREIT's 2003 equity incentive plan.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Certain officers of PREIT will receive financial and other benefits in connection with the merger. See "The Merger Interests of Trustees and Executive Officers of Crown and PREIT in the Merger" on page 65.

### Record Date; Shares Entitled to Vote and Quorum Requirement

PREIT has fixed the close of business on September 25, 2003 as the record date for the PREIT special meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote at the PREIT special meeting and any adjournment or postponement thereof. On each matter voted on at the PREIT special meeting and any adjournment or postponement thereof, each record holder of shares will be entitled to one vote per share.

In addition, pursuant to PREIT Partnership's limited partnership agreement, certain holders of PREIT Partnership Units are entitled to vote on the merger (for this purpose, as if voting with PREIT's common shares as a single class). See "Description of PREIT Shares of Beneficial Interest Summary of the Operating Partnership Agreement and PREIT Partnership Units" on page 146.

On the record date, 23,476,958 PREIT common shares and 1,399,439.6 PREIT Partnership Units entitled to vote on the merger were outstanding.

The holders of a majority of the outstanding shares entitled to vote at the PREIT special meeting must be present in person or by proxy to constitute a quorum for the transaction of business at the PREIT special meeting. Abstentions and shares referred to as "broker or nominee non-votes" that are represented at the special meeting are counted for purposes of determining the presence or absence of a quorum for the transaction of business.

### Vote Required

Pursuant to the PREIT trust agreement, the affirmative vote of holders of a majority of votes cast by all shareholders entitled to vote is required to approve the merger. In addition, pursuant to PREIT Partnership's limited partnership agreement, approval of the merger requires the affirmative vote of certain holders of outstanding PREIT Partnership Units entitled to vote on the merger. The exact number of required affirmative votes by such holders will depend on the number of affirmative votes received from the holders of PREIT common shares at the PREIT special meeting. As of the record

28

---

date, holders of over 68% of the PREIT Partnership Units entitled to vote on the merger have agreed to vote their PREIT Partnership Units in favor of the merger. This percentage of units will be sufficient to approve the merger under the terms of PREIT Partnership's limited partnership agreement assuming the merger is approved by the affirmative vote of a majority of the votes cast by PREIT shareholders at the PREIT special meeting.

The nominee receiving the highest number of votes will be elected as a Class A trustee.

Approval of PREIT's 2003 equity incentive plan requires the affirmative vote of a majority of the votes cast at the special meeting by all shareholders of PREIT entitled to vote thereon, provided that the total votes cast on the proposal represents over 50% of all votes entitled to be cast on the proposal. For purposes of this vote requirement of the New York Stock Exchange, (1) holders of a majority of the outstanding PREIT common shares must vote on the proposal (holders of outstanding shares present at the PREIT special meeting for quorum purposes but who do not vote on this proposal would not be counted towards the required majority) and (2) votes in favor must constitute at least a majority of the total votes cast on the proposal.

### Voting and Revocability of Proxies

You may vote your PREIT common shares at the PREIT special meeting in person or by proxy. All valid proxies received before the PREIT special meeting will be voted according to their terms.

**Proposal to Approve the Merger Agreement, the Merger and the Related Transactions.** If you complete your proxy properly, but do not provide instructions as to how to vote your shares on the merger, your proxy will be voted FOR the approval of the merger agreement, the merger and the related transactions. If you mark your proxy as "Abstain" on the merger, or if you give specific instructions that no vote be cast on the merger, the shares represented by your proxy will not be voted on that matter, but will count toward the establishment of a quorum. Your broker may only vote your shares on the merger if you instruct your broker how to vote by following the instructions your broker provides. A

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

"broker or nominee non-vote" on the merger proposal shall not be deemed to be votes cast in favor of the proposal to approve the merger agreement, the merger and the related transactions.

**Election of Class A Trustee.** If you sign and send in your proxy and do not indicate how you want to vote on the election of a Class A trustee, your proxy will be voted in favor of the election of John J. Roberts as a Class A trustee. Assuming a quorum is present, if you do not sign and send in your proxy and do not vote at your special meeting, or if you abstain, then your shares will not be counted and will not affect the vote. Your broker may vote your shares on the election of a Class A trustee even if you do not instruct your broker how to vote.

**Proposal to Approve the PREIT 2003 Equity Incentive Plan.** If you sign and send in your proxy and do not indicate how you want to vote on the proposal to approve the PREIT 2003 equity incentive plan, your proxy will be voted in favor of the proposal to approve the PREIT 2003 equity incentive plan. Assuming a quorum is present and that the total votes cast represent over 50% of all votes entitled to be cast, if you do not sign and send in your proxy and do not vote at your special meeting, or if you abstain, then your shares will not be counted and will not affect the vote. Your broker may only vote your shares on the PREIT 2003 equity incentive plan if you instruct your broker how to vote by following the instructions your broker provides.

After providing your proxy, you may revoke it at any time before it is voted at the PREIT special meeting by filing with PREIT's secretary an instrument revoking it or a duly executed proxy bearing a later date, or by attending the PREIT special meeting and giving notice of revocation. Attendance at the PREIT special meeting, by itself, will not constitute revocation of a proxy.

29

---

### Voting Agreements

The independent trustees and executive officers of PREIT have entered into voting agreements with Crown agreeing to vote all shares owned by them as of the record date for the PREIT special meeting and all PREIT Partnership Units entitled to vote on the merger and owned by them as of the record date for the PREIT special meeting in favor of the merger proposal. As of the record date for the PREIT special meeting, the independent trustees and executive officers of PREIT owned a total of 830,882 PREIT common shares representing approximately 3.54% of the outstanding common shares. As of the record date, the independent trustees and executive officers of PREIT owned a total of 951,757 PREIT Partnership Units entitled to vote on the merger, representing over 68% of the PREIT Partnership Units entitled to vote on the merger. Each of the PREIT trustees and executive officers have agreed to vote his or her PREIT Partnership Units in favor of the merger proposal, which is sufficient to ensure approval of the merger if the merger is also approved by the affirmative vote of a majority of the votes cast by PREIT shareholders at the PREIT special meeting.

### Voting on Other Matters

PREIT knows of no business to be brought before the special meeting other than the proposals stated above. If any other business is brought before the PREIT special meeting, proxies will be voted, to the extent permitted by the rules and regulations of the Securities and Exchange Commission, in accordance with the judgment of the persons voting the proxies.

### Costs of this Proxy Solicitation

PREIT and Crown will share equally the expenses incurred in connection with the printing of this joint proxy statement/prospectus. PREIT will bear the cost of soliciting proxies, including the mailing costs and reasonable charges and expenses of brokerage firms or other nominees for forwarding proxy materials to shareholders. In addition to solicitation by mail, certain trustees, officers and employees of PREIT and its subsidiaries may solicit proxies by personally, electronically or by telephone without additional compensation, with the exception of reimbursement for actual expenses incurred in connection with the solicitation. PREIT anticipates these fees and expenses would be approximately \$15,000.

PREIT will mail a copy of this joint proxy statement/prospectus to each holder as of the record date of PREIT shares of beneficial interest entitled to vote on the merger.

You should not send in any PREIT share certificates with your proxy card.

30

---

## THE CROWN SPECIAL MEETING

Crown is furnishing this joint proxy statement/prospectus to Crown common shareholders as part of the solicitation of proxies by the Crown board of trustees for use at the Crown special meeting.

### **Date, Time, Place and Purpose of Crown Special Meeting**

The Crown special meeting will be held at the Johnstown Holiday Inn, 250 Market Street, Johnstown, PA on November 11, 2003, at 11:00 a.m., local time. We may adjourn the Crown special meeting for the purpose of, among other things, soliciting additional proxies. This joint proxy statement/prospectus and the accompanying proxy card are being mailed to Crown shareholders on or about October 3, 2003.

At the Crown special meeting, the holders of Crown common shares will be asked to consider and vote upon a proposal to approve the merger agreement, the merger and the related transactions.

The Crown board of trustees unanimously recommends that you vote FOR the approval of the merger agreement, the merger and the related transactions.

Certain officers of Crown, some of whom are trustees of Crown, will receive financial and other benefits in connection with the merger. See "The Merger Interests of Trustees and Executive Officers of Crown and PREIT in the Merger" on page 65.

### **Record Date; Shares Entitled to Vote and Quorum Requirement**

Crown has fixed the close of business on September 18, 2003, as the record date for the Crown special meeting. Only holders of record of Crown common shares on the record date are entitled to notice of and to vote at the Crown special meeting. At the Crown special meeting and any adjournment or postponement thereof, each record holder is entitled to one vote per share.

On the record date, there were approximately 32,534,826 Crown common shares issued and outstanding and entitled to vote at the Crown special meeting, held by approximately 2,700 shareholders of record.

A quorum consists of the presence, in person or by proxy, of shareholders entitled to cast a majority of all the votes entitled to be cast at the Crown special meeting. The outstanding shares of Crown 11% preferred shares are not entitled to vote on the approval of the merger agreement, the merger and the related transactions. Therefore, a quorum will be achieved by the presence, in person or by proxy, of a majority of the issued and outstanding Crown common shares. Abstentions count towards a quorum, however, broker non-votes do not count toward a quorum.

### **Vote Required**

Approval of the proposal to approve the merger agreement, the merger and the related transactions requires the affirmative vote of holders of at least a majority of the issued and outstanding Crown common shares. In addition, pursuant to Crown Partnership's limited partnership agreement, the proposal to approve the merger agreement, the merger and the related transactions is subject to the approval of Crown Investments Trust and Crown American Investment Company, as limited partners of Crown Partnership. Crown Investments Trust and Crown American Investment Company have agreed to vote in favor of the merger.

### **Voting and Revocability of Proxies**

You may vote your Crown common shares at the Crown special meeting in person or by proxy. If you sign, complete and return a proxy and Crown receives your proxy before the meeting, your proxy will be voted as you instructed. If you sign and return a proxy but you do not provide instructions as to

your vote, your proxy will be voted FOR the proposal to approve the merger agreement, the merger and the related transactions. If you execute and return a proxy marked "Abstain", your proxy will count for purposes of determining whether there is a quorum. Because approval of the merger proposal requires a majority of issued and outstanding shares, abstentions have the same effect as a vote against the proposal. A broker non-vote occurs when a broker is not permitted to vote on a proposal without instruction from the beneficial owner and no instructions are given. Broker non-votes do not count toward a quorum. Because approval of the merger proposal requires a majority of issued and outstanding shares,

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

broker non-votes have the same effect as a vote against the proposal. You may revoke your proxy at any time prior to its use. In order to revoke your proxy, you must send to the Secretary of Crown, c/o Crown American Realty Trust, Pasquerilla Plaza, Johnstown, PA 15901, a signed notice of revocation or you must send a later dated proxy changing your vote. In addition, you may choose to attend the Crown special meeting and vote in person. Simply attending the Crown special meeting will not in itself constitute the revocation of your proxy.

### **Voting Agreements**

Mark E. Pasquerilla, chairman chief executive officer and president of Crown, and certain of his affiliates, and each of the independent trustees and executive officers of Crown (except for Ronald P. Rusinak and John A. Washko) have entered into voting agreements with PREIT agreeing to vote all shares owned by them as of the record date for the Crown special meeting in favor of the merger proposal. As of the record date for the Crown special meeting, Mr. Pasquerilla and his affiliates and the independent trustees and such executive officers of Crown owned a total of 3,261,835 Crown common shares representing approximately 10.03% of the outstanding Crown common shares.

### **Voting on Other Matters**

Crown knows of no business to be brought before the Crown special meeting other than the proposal stated above. If any other business is brought before the Crown special meeting, proxies will be voted, to the extent permitted by the rules and regulations of the Securities and Exchange Commission, in accordance with the judgment of the person voting the proxies.

### **Costs of this Proxy Solicitation**

PREIT and Crown will share equally the expenses incurred in connection with the printing of this joint proxy statement/prospectus. Crown will pay the costs associated with soliciting the proxies from its shareholders. In addition to solicitation by mail, Crown retained Georgeson Shareholder to aid in the solicitation of proxies for a fee of \$15,000, plus additional fees based on the level of services provided and reasonable out-of-pocket expenses. In order to ensure sufficient representation at the Crown special meeting, you may be contacted by telephone or telegram to return your proxy card. The trustees, officers and employees of Crown may solicit proxies personally, electronically or by telephone, for which they will receive no additional compensation, with the exception of reimbursement for actual expenses incurred in connection with the solicitation. Please promptly return your proxy card without delay.

Crown will mail a copy of this joint proxy statement/prospectus to each holder as of the record date of Crown common shares entitled to vote on the merger.

You should not send in any Crown share certificates with your proxy card.

### **Annual Meeting**

In light of the proposed merger and the related Crown special meeting to vote on approval of the merger agreement, the merger and the related transactions, the Crown board of trustees did not call an annual meeting of shareholders in 2003. In the event the proposal to approve the merger agreement, the merger and the related transactions is not approved by the shareholders at the Crown special meeting, the board of trustees of Crown will call the annual meeting of shareholders.

32

---

## **THE MERGER**

### **Structure of the Merger**

#### ***General***

The merger agreement contemplates the merger of Crown with and into PREIT. Following the merger, Crown will cease to exist.

#### ***Merger Consideration***

In the merger:

holders of Crown common shares will receive, for each Crown common share issued and outstanding immediately before the merger, 0.3589 PREIT common shares; and

holders of Crown 11% preferred shares will receive, for each Crown 11% preferred share issued and outstanding immediately before the merger, one newly created PREIT 11% preferred share.

The PREIT 11% preferred shares issued in the merger will have preferences and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption identical in all material respects to those of the Crown 11% preferred shares.

Holders of Crown common shares will not receive certificates or scrip representing fractional PREIT common shares. Instead, each holder of Crown common shares otherwise entitled to a fractional share interest in PREIT will be paid an amount in cash, without interest, rounded to the nearest cent, determined by multiplying:

the average closing price of a PREIT common share on the New York Stock Exchange on the five trading days immediately preceding the closing date of the merger by

the fraction of a PREIT common share which such holder of Crown common shares would otherwise be entitled to receive.

Upon conversion of the outstanding Crown common shares and Crown 11% preferred shares into the merger consideration, the Crown common shares and Crown 11% preferred shares will be cancelled and retired and will cease to exist.

#### ***Post-Merger Contribution Consideration***

As part of the post-merger contributions, Crown Partnership will contribute to PREIT Partnership the remaining interest in all of Crown Partnership's assets (excluding an 11% interest in the capital and a 1% interest in the profits of two partnerships that are wholly-owned by Crown and Crown Partnership, which partnerships own 14 of the Crown shopping malls) and PREIT Partnership will assume substantially all of Crown Partnership's remaining liabilities. In consideration for this contribution transaction as a whole, PREIT Partnership will issue to Crown Partnership a number of Class B PREIT Partnership Units equal to approximately 0.2053 of a Class B PREIT Partnership Unit for each Crown Partnership Unit that remains outstanding following the Crown distribution transaction. For more information, see "The Merger Agreement The Distribution Agreement" and " The Contribution Agreements" beginning on pages 103 and 104, respectively.

The exchange ratio of 0.2053 for the Crown Partnership Units is lower than the 0.3589 exchange ratio for the Crown common shares to account for the reduction in the value of the Crown Partnership Units held by Crown Investments Trust and Crown American Investment Company to reflect the sale of the Oak Ridge Mall and related transactions and the amendments to the cash flow support agreement described under "The Merger Agreement Sale of Oak Ridge and Amendments to Crown Partnership Agreement and Support Agreement" on page 102.

#### **Background of the Merger**

In pursuing their strategies for enhancing shareholder value, each of PREIT and Crown regularly consider opportunities for acquisitions, joint ventures and other significant transactions.

In October 2001, Mark E. Pasquerilla, Crown's chairman and chief executive officer, received an inquiry from the chief executive officer of another publicly-traded shopping mall REIT, which we refer to as Company A, regarding a possible strategic alliance between the two companies, including the possibility of merging the two companies. At the time, Crown's board of trustees had not authorized, and Crown was not conducting, a special exploration of its strategic alternatives. This discussion, taken in the context of its general dialogue, as well as a growing appreciation of changes occurring in the competitive dynamics in the REIT industry, prompted Crown's board of trustees to consider a thorough review of Crown's strategic alternatives. Although Crown continued to perform in line with its expectations, Crown's board of trustees recognized the growing challenges inherent in Crown's position as a smaller-sized publicly-traded shopping mall REIT in a consolidating REIT industry, with significant exposure to several large tenants, a high debt level which would need to be refinanced, a relatively low multiple of

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

funds from operations to share price, limited access to growth capital and relative illiquidity in the trading volume of Crown's common shares compared to that of many of its peer companies. See " Crown's Reasons for the Merger; Recommendation of the Crown Board" beginning on page 51.

As a result, on October 10, 2001, at an executive session, Mr. Pasquerilla and Terry L. Stevens, Crown's chief financial officer and a Crown trustee, met with a representative of Wachovia Securities to discuss in broad terms Crown's competitive situation, as well as possible strategic alternatives available to it. At the invitation of Messrs. Pasquerilla and Stevens, Wachovia Securities made a presentation at an executive session of Crown's board of trustees on October 22 and 23, 2001 that examined, among other things, the current state of the REIT market, Crown's strategic position in the retail/mall sector and selected preliminary valuation analyses of Crown, as well as background information on potential strategic partners for Crown.

Subsequent to this presentation, in November 2001 the Crown board of trustees authorized Crown's senior management and Wachovia Securities, as Crown's financial advisor, to pursue a formal evaluation of certain strategic alternatives, including the possibility of a change-of-control transaction.

Commencing in late January 2002, Crown and Wachovia Securities contacted eight parties regarding possible strategic transactions, both private and public. After signing non-disclosure agreements, three parties, including PREIT, received informational materials on Crown. During February and March 2002, Wachovia Securities and Crown held telephonic and in-person meetings with the principals of and/or advisors to these three potential strategic partners, in which Crown's operations and potential transaction structures were discussed.

In late February 2002, Crown's management met with representatives of Company B, a publicly-traded REIT which was one of the entities that had signed a non-disclosure agreement and received informational materials on Crown, including Company B's chairman and chief financial officer. Company B did not submit a proposal or any other indication of interest with respect to a potential strategic transaction with Crown.

In early March 2002, Messrs. Pasquerilla, Stevens and a representative of Wachovia Securities met with the chief financial officer of Company A. Company A, which had executed a non-disclosure agreement, provided an oral, non-binding indication of interest to purchase all outstanding Crown common shares. The estimated value of Company A's indication of interest was below the range of market prices at which the Crown common shares were publicly trading at the time. In its indication of interest, Company A did not specify the form of consideration (i.e., cash, stock or a combination) with which the purchase would be made. Simultaneously with its indication of interest, Company A also orally expressed an interest in discussing an acquisition of a significant portion of Crown's assets

34

---

without an indication of which assets or a price for such assets. Company A did not submit a written offer for either the acquisition of Crown common shares or a portion of Crown's portfolio assets. In light of the below-market value of Company A's expression of interest and other factors, Crown did not pursue additional negotiations with Company A.

On March 12, 2002, Wachovia Securities, Crown's financial advisor, received a written preliminary proposal from PREIT indicating PREIT's possible interest in consummating a stock-for-stock merger with Crown. In connection with the initial discussions with Crown, PREIT engaged Lehman Brothers as its financial advisor in April 2002 to assist PREIT in reviewing a potential business combination transaction with Crown. PREIT also engaged Citigroup to assist PREIT in connection with the potential transaction with Crown. On April 5, 2002, Wachovia Securities received a letter from Lehman Brothers, reiterating PREIT's interest in a potential strategic transaction. Although there were some initial discussions between PREIT and Crown in April 2002, they were very preliminary in nature. By April 15, 2002 none of the other parties that had received material from Wachovia Securities had expressed any indication of interest in a strategic transaction with Crown other than as noted above.

On May 9, 2002, the PREIT board of trustees held a meeting at which Ronald Rubin, PREIT's chairman and chief executive officer, informed the board of a meeting he had with Mr. Pasquerilla regarding the potential transaction and of PREIT's engagement of Lehman Brothers and commencement of due diligence in connection with the potential transaction.

An independent committee of Crown's board of trustees was formed in May 2002 in connection with the Oak Ridge transactions, with Peter J. Siris to serve as the chairman of the independent committee. In the same month, in response to the strengthening of investor demand in the equity market for publicly-traded REITs, Crown's board of trustees elected to terminate its preliminary discussions with PREIT regarding a possible strategic transaction and, instead, pursued the opportunity to raise equity in the capital markets. On June 6, 2002, Crown closed the sale of five million Crown common shares at \$8.75 per share, with the sale of an additional 750,000 shares issued pursuant to the over-allotment option closing on June 21, 2002. In the prospectus supplement for the equity offering, Crown had stated that it had not foreclosed on the possibility of pursuing a strategic transaction in the future and would continue to evaluate opportunities to enhance shareholder value.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

In July 2002, executives of PREIT and Crown had several communications relating to a possible business combination transaction. In order to further explore a possible transaction, PREIT and Crown executed confidentiality agreements on July 1 and July 2, 2002. Pursuant to those confidentiality agreements, each party agreed to keep confidential information provided by the other and to use that information only for purposes of considering a transaction between the companies.

On July 11, 2002, the PREIT board of trustees was updated on the status of negotiations and in July 2002, PREIT sent Crown a non-binding proposal for a stock-for-stock merger of Crown and PREIT but did not provide specifics on numerous matters, including valuation. Crown delivered to PREIT a counterproposal in the beginning of August 2002. At that time, however, PREIT and Crown did not reach agreement on significant issues, including the proposed valuation and structure of the transaction.

At its executive session on July 23, 2002, Crown's board of trustees was updated on the status of the negotiations.

In August 2002, PREIT retained Hogan & Hartson L.L.P. as special counsel to assist it in connection with the potential business combination transaction with Crown. Consultations with legal and financial advisors to PREIT, including Drinker Biddle & Reath LLP, Lehman Brothers and Citigroup, and legal and financial advisors to Crown, including Reed Smith LLP and Wachovia Securities, continued through the remaining acquisition discussions. On August 20, 2002, the PREIT

35

---

board of trustees held a meeting in which PREIT management updated the status of negotiations with Crown using materials prepared by Lehman Brothers.

On September 4, 2002, representatives and financial advisors of PREIT and Crown met in Philadelphia to negotiate the principal terms under which Crown would merge with and into PREIT. Although the parties did reach agreement on certain terms, a number of material issues remained unresolved at the conclusion of that meeting.

At a special meeting held on September 6, 2002, Crown's board of trustees was updated by Mr. Pasquerilla regarding the terms agreed to at the September 4, 2002 meeting. Mr. Pasquerilla also requested the board to approve continued negotiations and due diligence with respect to the possible transaction with PREIT.

Beginning in September 2002, the respective legal and financial advisors of PREIT and Crown conducted extensive due diligence investigations of the other company. Members of PREIT's senior management, its internal and external legal team as well as its financial advisors and consultants conducted a due diligence review of Crown from an operational, financial, accounting, tax and legal perspective. During the same time, members of Crown's senior management, its internal and external legal team as well as its financial advisors and external auditors, conducted a due diligence review of PREIT from an operational, financial, accounting, tax and legal perspective. In addition, legal advisors for PREIT and Crown explored alternative structures for the potential business combination, including a spin-off of certain non-core Crown shopping malls. On September 17, 2002, the Crown independent trustees engaged Spitzer & Feldman P.C. as legal counsel to the independent trustees and the independent committee, which participated going forward.

On October 8, 2002, the PREIT board of trustees held a meeting at which Lehman Brothers was in attendance to review the potential transaction with Crown and a potential transaction involving the purchase of up to six retail malls from a third-party property owner. PREIT management and Lehman Brothers provided a detailed overview of the potential transactions, which included a discussion of possible strategic benefits, assets to be acquired, financial implications, market considerations, and integration matters. In addition, on October 30, 2002, the PREIT board of trustees held a meeting at which it was provided with an update on the status of the two potential transactions.

At its executive session on October 23, 2002, at which Wachovia Securities was in attendance, Crown's board of trustees was updated on the status of negotiations.

On November 13, 2002, the Crown board of trustees held a special meeting in New York City at which Crown's legal and financial advisors were present to provide the trustees with an update on the status of the pending transaction.

On December 5, 2002, Crown's board held a special meeting in Philadelphia at which Messrs. Pasquerilla, Stevens and Donato B. Zucco, the independent trustees of Crown, legal and financial advisors for Crown, and Sullivan & Cromwell LLP, personal counsel to Mr. Pasquerilla and Crown Holding Company, were present or participated by telephone. In addition, PREIT's senior management team together with representatives of PREIT's legal and financial advisors attended a portion of the meeting. PREIT's management team delivered a presentation to the Crown board, which included a detailed summary of PREIT's historical financial and operating performance, retail strategies as well as PREIT's preliminary integration plans for the proposed merger.



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Following the December 5, 2002 meeting, PREIT and Crown, working together with their respective legal and financial advisors, continued to negotiate certain terms of the proposed merger and to perform due diligence. In addition, PREIT and representatives of Hogan & Hartson L.L.P. negotiated with Mr. Pasquerilla and Mr. Pasquerilla's personal legal counsel and counsel to Crown Holding Company, regarding certain arrangements with Mr. Pasquerilla and Crown Investments Trust and Crown American Investment Company, as limited partners.

36

---

On December 18, 2002, the PREIT board of trustees held a meeting at which it was provided with an update on the status of the potential transaction.

On January 14, 2003, representatives of Hogan & Hartson L.L.P. circulated an initial draft of the merger agreement to Crown and the working group of legal and financial advisors. On January 30, 2003, representatives of PREIT and Crown, together with the working group of legal and financial advisors, met in New York to negotiate the terms and structure of the proposed merger and related agreements. Following this meeting, PREIT and Crown, working together with the working group of legal and financial advisors, continued to negotiate the terms and structure of the proposed merger.

In early February 2003, PREIT notified Crown that it was seriously considering, and was in the advanced stages of preparation to execute definitive agreements in connection with two portfolio transactions that, if consummated, would transform its strategic focus from operating a diversified real estate portfolio to one centered on the retail sector. PREIT had previously advised Crown that it was considering another transaction, but no details had been provided. The two portfolio transactions involved the sale of PREIT's multifamily apartment portfolio to a private real estate investment firm and the roughly contemporaneous purchase of up to six retail malls located in the greater Philadelphia, PA area from a third-party property owner.

On February 4, 2003, PREIT and Crown amended their confidentiality agreement to permit PREIT to disclose to the third-party property owner the status of the negotiations with Crown and the fact that a potential merger may occur between PREIT and Crown. In addition, PREIT and the third party entered into an amendment to their existing confidentiality agreement to permit PREIT to disclose to Crown confidential proprietary information concerning the potential transaction between PREIT and the third party. The potential purchaser of PREIT's multifamily business also agreed to allow PREIT to disclose to Crown confidential proprietary information concerning the potential transaction between PREIT and the purchaser.

At its February 5, 2003 meeting, Crown's board of trustees was updated on the status of negotiations.

On February 20, 2003, the PREIT board of trustees held a meeting in which PREIT management updated them on the status of negotiations with Crown relating to the proposed merger, the proposed shopping mall acquisition and the proposed sale of its multifamily business.

On March 3, 2003, representatives of PREIT and Crown as well as the working group of legal and financial advisors met in Philadelphia for a presentation and discussion on the sale of PREIT's multifamily portfolio and the purchase of six shopping malls from a third-party property owner. PREIT and Lehman Brothers delivered a detailed presentation regarding the two transactions.

On March 5, 2003, the PREIT board of trustees held a meeting in which PREIT management updated them on the status of the three transactions. On March 6, 2003, PREIT announced that it had reached an agreement to purchase from The Rouse Company six shopping malls in the Philadelphia area for total consideration of \$548 million. In addition, PREIT announced that it had signed an agreement to sell its multifamily portfolio to an affiliate of Morgan Properties for total consideration of \$420 million.

On March 19, 2003, Crown's board of trustees was updated regarding the status of PREIT's proposed shopping mall acquisition from Rouse and the proposed sale of its multifamily business to Morgan Properties.

In connection with the ongoing discussions between PREIT and Crown regarding the proposed merger, PREIT indicated its desire for Crown to sell Oak Ridge Mall before signing a definitive merger agreement and to terminate the cash flow support agreement between Crown and Crown Investments Trust, a limited partner of Crown Partnership controlled by Mr. Pasquerilla. Crown's board

37

---

of trustees had previously approved an agreement to sell Oak Ridge Mall, one of the three remaining properties subject to the cash flow support agreement, to an unrelated third party for \$12 million and, at the same time, the independent members of the board of trustees of Crown approved an amendment of the cash flow support agreement to eliminate the cash flow support obligations of Crown Investments with respect to Oak Ridge upon completion of the sale based on that price.

The Oak Ridge purchase agreement with the third party was extended and amended several times after May 2002, but as of mid-March 2003, a variety of conditions required for closing with the third party continued to be unsatisfied. These amendments were subject to and conditioned on approval by Crown's board of trustees, which approval was not obtained. Given the difficulties Crown was encountering with the proposed sale of Oak Ridge to the third party which had signed the agreement of sale, Mr. Pasquerilla indicated that he would be willing to acquire, through Crown Investments, Oak Ridge and assume the risk that the third party sale could not be consummated. Mr. Pasquerilla, his counsel, and the independent trustees and their counsel, Spitzer & Feldman, with advice from Wachovia Securities, negotiated the terms of the sale of Oak Ridge to Crown Investments Trust, including an amendment to the cash flow support agreement as it applied to Oak Ridge. On March 28, 2003, the Crown independent trustees approved the sale of Oak Ridge to Crown Investments and the related amendment of the cash flow support agreement and Crown subsequently sold Oak Ridge Mall to Crown Investments and amended the cash flow support agreement to eliminate the cash flow support obligations with respect to Oak Ridge.

The consideration for the sale of Oak Ridge and the termination of cash flow support obligations relating to Oak Ridge was effectively a reduction in the interests of Crown Investments and Crown American Investment Company, a wholly-owned subsidiary of Crown Investments, by an aggregate of 3,759,794 Crown Partnership Units. Crown's 32,071,965 outstanding common Crown Partnership Units as of March 31, 2003 were unchanged as a result of the Oak Ridge transactions, however, the number of Crown common shares for which the Crown Partnership Units held by Mr. Pasquerilla and his affiliates were redeemable was reduced by 3,759,794 shares.

Mr. Pasquerilla, his counsel, and the independent trustees and their counsel, with advice from Wachovia Securities, also negotiated the terms of another amendment to the cash flow support agreement to provide that, in connection with the execution of the merger agreement, Crown Investments would have no further contribution or other obligations under the cash flow support agreement with respect to the two remaining properties covered by the cash flow support agreement and, in connection therewith, the parties would revise the percentage ownership interest of Crown Investments to reflect a further adjustment equivalent to reducing the Crown Partnership Units held by Crown Investments by 500,000. In order to reflect this reduction and the reduction associated with Oak Ridge described above in the total number of Crown Partnership Units effectively outstanding at the time the merger agreement was finalized on May 13, 2003, as described below, the exchange ratio for the Crown Partnership Units to be exchanged for PREIT Partnership Units as part of the post-merger contributions was set at 0.2053, rather than the 0.3589 exchange ratio for the Crown common shares.

In April 2003, following execution of the Oak Ridge transactions, PREIT and Crown representatives continued discussions regarding a proposed stock-for-stock merger. On April 11, 2003, Mr. Rubin, chief executive officer of PREIT, Mr. Pasquerilla, chief executive officer of Crown, and Peter J. Siris, chairman of the independent committee, met in New York to continue to discuss a potential business combination and to negotiate the terms of a transaction. On April 21, 2003, the PREIT board of trustees held a meeting at which they were updated on the status of negotiations with Crown, including the terms of PREIT's proposal to merge with Crown. On April 23, 2003, at an executive session convened in Pittsburgh, PA, Crown's board of trustees considered the proposed terms of the transaction and authorized Crown's senior management and its financial advisors and legal counsel, together with counsel to the independent trustees and Mr. Pasquerilla, to complete the work necessary to proceed to a definitive merger agreement.

During the course of the next two weeks, representatives of PREIT and Crown as well as the working group of legal and financial advisors engaged in extensive negotiations both in person and by telephone regarding the merger agreement and each of the related agreements. During this period, the parties and their legal and financial advisors and consultants conducted further due diligence on the respective parties. Representatives of PREIT and Crown also discussed business integration issues and employee retention matters.

On May 13, 2003, all members of Crown's board of trustees and members of management were present in person or via teleconference at a special meeting of the board of trustees to consider the proposed merger and the terms of the merger agreement and other related agreements. Also present at this meeting in person or by telephone were Crown's general counsel and secretary and representatives of Wachovia Securities, Reed Smith LLP, Spitzer & Feldman and Sullivan & Cromwell LLP. At the meeting, Wachovia Securities made a presentation regarding the proposed merger and delivered its oral opinion that, as of the date of that opinion and based upon and subject to the assumptions made, procedures followed, matters considered and limitations of the review undertaken, in its opinion, the consideration to be received by holders of Crown common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders. Reed Smith LLP presented written materials, which outlined Crown's board's fiduciary duties, the material terms of the merger agreement and related documents and a summary of its legal due diligence. In the course of the meeting, Crown's board of trustees evaluated the results of the due diligence reviews conducted by Crown's financial advisors and legal counsel, reviewed the terms of the draft merger agreement and considered the other terms and

conditions of the other related agreements. During the meeting, the trustees asked numerous questions and discussed at length the proposed merger and the related transactions.

The meeting of Crown's board of trustees was temporarily adjourned and a teleconference discussion on the proposed exchange ratio ensued among representatives of PREIT and Crown and their respective financial advisors. Subsequently, PREIT and Crown agreed to a fixed exchange ratio of 0.3589 based on the average closing price of PREIT common shares and Crown common shares for the 20 trading days prior to and including May 12, 2003. In connection with the previously discussed sale of Oak Ridge Mall and the termination of all remaining cash flow support obligations of Crown Investments to Crown with respect to Oak Ridge and the other two remaining properties, PREIT and Crown further agreed that PREIT would issue approximately 0.2053 PREIT Partnership Units for each outstanding Crown Partnership Unit, all of which, other than those held by Crown (which would be redeemed immediately prior to the merger), were held by Crown Investments and by Crown American Investment Company. Shortly thereafter, Crown's board of trustees reconvened its meeting and unanimously approved the merger and unanimously approved and adopted the merger agreement. For a description of the factors considered by the Crown board of trustees at the May 13 meeting, see " Crown's Reasons for the Merger; Recommendation of the Crown Board" beginning on page 51.

On May 13, 2003, the PREIT board held a special meeting at which all of the PREIT trustees, members of management, and representatives of Lehman Brothers, Citigroup, Hogan & Hartson L.L.P. and Drinker Biddle & Reath LLP were present in person or via teleconference. The special meeting was held in order for the PREIT board to consider and formally act upon the proposed merger with Crown. At this meeting, PREIT's senior management reviewed with the board financial and business terms of the proposed transaction and the results of PREIT's due diligence review. Drinker Biddle & Reath made a presentation to the PREIT board regarding their fiduciary duties under Pennsylvania law. Hogan & Hartson L.L.P. made a presentation to the PREIT board in which it explained the material terms of the proposed merger agreement and related agreements, including closing conditions, termination rights and provisions regarding break-up fees and termination expenses, and briefed the board on open items. Lehman Brothers then presented its financial analysis of the proposed merger and delivered to the PREIT board its oral opinion that, as of the date of that opinion and based upon and subject to the factors and assumptions set forth in its written opinion of the same date, the

39

---

weighted average exchange ratio of 0.3225 (based on 0.3589 per Crown common share and 0.2053 per Crown Partnership Unit) to be paid by PREIT in connection with the merger and the related transactions was fair, from a financial point of view, to PREIT. See " Opinion of Lehman Brothers, Inc." on page 44.

During these presentations, the PREIT trustees asked numerous questions of management and its legal counsel and financial advisors and discussed at length the issues raised by the presentations. After discussion by the PREIT board of trustees concerning, among other things, the matters described below under " PREIT's Reasons for the Merger; Recommendation of the PREIT Board," the PREIT board of trustees unanimously approved the merger, the merger agreement and each of the related agreements. Shortly after that approval, the parties executed the merger agreement, the contribution agreements, the distribution agreement, the voting agreements, the indemnification agreement, the amendments to each of the cash flow support agreement (eliminating the cash flow support obligations relating to the two remaining properties) and Crown Partnership's limited partnership agreement and the agreement of exchange.

#### **PREIT's Reasons for the Merger; Recommendation of the PREIT Board**

In making its determination with respect to the merger agreement, the merger and the related transactions, the PREIT board of trustees considered the entirety of the terms of the merger agreement, the decision of the PREIT board to focus PREIT's business on the retail sector and to increase PREIT's portfolio of retail malls with portfolio acquisition transactions in the Mid-Atlantic region, and the historical and prospective information concerning PREIT's and Crown's respective businesses, operations and financial performance, including, among other things, the earning prospects of Crown and its debt service and financial obligations, both before and after the merger. Based upon such information, consultation with PREIT management, as well as PREIT's financial advisors and legal counsel, and a number of factors, including among others, the factors described below, the PREIT board unanimously approved the merger agreement, the merger and the related transactions, including the related issuance of PREIT shares and PREIT Partnership Units. Accordingly, the PREIT board of trustees recommends that PREIT common shareholders approve the merger agreement, the merger and the related transactions.

Set forth below is a discussion of the material positive and negative factors considered by the PREIT board in making its determination to approve the merger agreement, the merger and the related transactions, no one of which was determinative.

#### ***Positive Factors Considered by the PREIT Board***

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

In making its determinations, the PREIT board of trustees considered a number of factors, including the following positive factors, in its deliberations concerning the merger agreement, the merger and the related transactions:

*Strategic Opportunity to Solidify PREIT's Position as a Leading Shopping Mall REIT in the Mid-Atlantic Region.* In the merger, PREIT would acquire a portfolio of 26 shopping malls and the remaining interest in another shopping mall that are predominately located in the Mid-Atlantic region and that are similar in type and demographics to many other properties in PREIT's existing retail portfolio. The merger would be an important step in positioning PREIT as a leading owner of retail properties in the Mid-Atlantic region. The merger represents a unique opportunity for PREIT to expand its retail portfolio and increase its concentration in existing markets, which, in the view of PREIT's management and board of trustees, is not likely to be replicated in a reasonable period of time through acquisitions of individual assets. In addition, there would be an opportunity to capitalize on PREIT's strengthened geographic presence to attract new tenants to the expanded portfolio, enhance ancillary and seasonal

40

---

revenue opportunities and take advantage of future consolidation opportunities in its core markets.

*Value-Creation Opportunities and Long-Term Growth Potential Using PREIT's Operating Strengths.* PREIT is experienced in dealing with properties of the type and demographics being acquired in the merger. Because of PREIT's experience in repositioning the type of shopping malls that would be acquired in the merger, its established franchise within the retail community, its long-standing relationships with productive in-line and value-oriented retailers, its in-house construction and development personnel and its experienced leasing team, PREIT believes that it will be able to increase the performance of Crown's portfolio. Except for certain non-core Crown properties that PREIT intends to sell, PREIT intends to seek to increase the performance of Crown's properties through strategic redevelopment and/or by leveraging its relationships with existing tenants at other properties to opportunistically fill new or existing vacancies at these properties. In addition, PREIT intends to seek to increase revenue at all of its properties by leasing carts, kiosks and in-line space on a short-term basis and by expanding access to sponsorship income. When economically appropriate, PREIT is also prepared to utilize its financial resources and development personnel to refurbish and improve the attractiveness of its shopping malls.

*Greater Financial Flexibility and Liquidity.* The combined company is expected to have a significantly increased equity market capitalization which PREIT's board of trustees believes will provide greater financial flexibility and improved access to both debt and equity capital and acquisition opportunities for PREIT, as well as greater liquidity for PREIT shareholders. In addition, PREIT's board believes that increased capitalization will likely attract expanded research coverage and more interest from institutional investors.

*Operating Leverage with Tenants and Vendors.* PREIT's board believes that it is important for PREIT to increase its size in order to increase its importance and strength in the retail industry when dealing with tenants and vendors.

*Management Continuity.* Apart from the addition of two Crown trustees to the board of trustees of PREIT, the current board and officers of PREIT, with minor possible officer increases, will continue to manage and direct the operations and set the policies and goals of the combined company. PREIT believes that this will substantially reduce the risk associated with integrating potentially disparate management approaches and senior executives with competing personal or business goals.

*Opportunity for Cost Savings Through Scale and the Utilization of Personnel and Systems.* PREIT believes that its core of management and home office personnel has the experience and depth to manage the shopping malls acquired from Rouse and the shopping malls which would be acquired in the merger with only modest increases in personnel. Prior to the Rouse transaction, PREIT owned, managed or leased retail properties containing approximately 18.3 million square feet of gross leasable area. Following the conclusion of the Rouse transaction, PREIT owned, managed or leased approximately 22.8 million square feet of gross leasable area. Following completion of the merger, PREIT will own, manage or lease retail properties containing approximately 39.4 million square feet of gross leasable area. A significant number of PREIT's existing retail properties are located in Pennsylvania, New Jersey, Maryland and Delaware, with a concentration in eastern Pennsylvania and the Philadelphia area. A substantial number of the Crown shopping malls are located in the central and western portions of Pennsylvania. PREIT's management believes that it understands this marketplace and that the concentration of retail properties in Pennsylvania and neighboring states will improve tenancing and marketing opportunities

for the combined operations. Following completion of the merger, approximately 82% of the total square footage of PREIT's retail properties will be located in Pennsylvania,

New Jersey, Maryland and Delaware. PREIT's management also believes that the relative proximity of the properties will allow for strong central management and direction. By using its existing personnel to manage a substantially larger asset and revenue base, PREIT's board believes that the merger will result in a lower ratio of expenses to revenues and greater profitability. PREIT's board also believes that a consolidation of accounting, marketing, developmental and leasing functions will result in cost savings.

*Fixed Exchange Ratio.* The number of PREIT shares of beneficial interest and PREIT Partnership Units to be issued in the merger was fixed and will not be adjusted in the event of a decline in the trading price of PREIT shares of beneficial interest relative to the trading price of Crown shares of beneficial interest. This enabled PREIT to better control and predict the pro forma effect of the merger on the shareholders of the combined company.

*Accretive Effect in 2004.* PREIT believes that the merger will be accretive to net income per share, funds from operations per share and funds available for distribution in 2004.

*Reduction of Percentage of Joint Venture Assets to Total Assets.* The merger will reduce the proportion of joint ventures and non-controlled assets as a percent of the total assets of PREIT.

*Interest of and Arrangements with Mark E. Pasquerilla.* The PREIT board considered the arrangements made with Mr. Pasquerilla and his affiliates in connection with the merger and related transactions and the benefits of the agreements to PREIT. The PREIT board considered (1) the acquisition of undeveloped out-parcels adjacent to shopping malls owned by Crown that will be purchased by Crown from an entity controlled by Mr. Pasquerilla in exchange for Pasquerilla Plaza, (2) the terms and benefits of the non-competition, shareholder and standstill agreements to be entered into by Mr. Pasquerilla and certain of his affiliates, (3) the terms of the agreement by Mr. Pasquerilla and certain of his affiliates to indemnify PREIT against claims for related party transactions with Crown entered into since January 1, 2000, and (4) PREIT's participation right in net proceeds received by Mr. Pasquerilla or his affiliates upon resale of certain properties prior to the sixth anniversary of the merger, and considered the terms of such arrangements to be fair and advisable to PREIT. See "Agreements with Mark E. Pasquerilla and Affiliates" beginning on page 109 for a more detailed description of the foregoing agreements.

*Opinion of Lehman Brothers Inc.* The PREIT board considered the oral opinion, analyses and presentation of Lehman described below under "Opinion of Lehman Brothers Inc." including the opinion of Lehman, that, as of the date of that opinion, and based upon and subject to the factors and assumptions set forth in its written opinion of the same date, the weighted average exchange ratio of 0.3225 (based on 0.3589 per Crown common share and 0.2053 per Crown Partnership Unit) to be paid by PREIT pursuant to the merger and the related transactions is fair to PREIT from a financial point of view.

#### ***Negative Factors Considered by the PREIT Board***

The PREIT board also considered the following possible negative factors in its deliberations concerning the merger agreement, the merger and the related transactions:

*Increased Leverage.* Upon completion of the merger, PREIT will be more highly leveraged, both on an absolute basis and as a percentage of total assets, thereby exposing PREIT to greater risk and possible limitations on future capital plans and acquisitions.

*Potential Difficulties in Integrating the Two Companies.* There is a risk that the anticipated benefits of the merger might not be fully realized as a result of an inability to achieve the anticipated cost savings and other potential difficulties in integrating the two companies and their respective operations.

*Risks Associated with Non-Core Properties.* PREIT intends to dispose of certain Crown properties and it may be difficult to do so without suffering an economic loss.

*Risks and Costs Associated with Obtaining Required Third-Party Consents.* The consent of certain third-parties are needed to effectuate the merger and there is a risk that PREIT would fail to obtain the required consents or that obtaining those consents would be more costly than anticipated.

*Risks Related to Assumed Indebtedness.* In connection with the merger, PREIT expects to assume Crown's existing mortgage debt, which as of June 30, 2003 aggregated approximately \$609.0 million. In addition, PREIT could assume Crown's \$175 million line of credit facility with GE Capital Corporation, under which \$144.7 million was outstanding as of June 30, 2003. PREIT will attempt to refinance all or portions of the mortgage debt and repay the line of credit facility, but PREIT may not be able to do so on desirable terms, if at all.

*Increased Retail Exposure.* Upon completion of the merger, PREIT will be less diversified and will have increased retail exposure.

*Costs of Merger.* There is significant cost involved in connection with completing the merger and a substantial amount of management time and effort required to effect the merger and integrate the businesses of PREIT and Crown. One time transactional costs associated with the merger are expected to limit the accretive effect of the transaction in the current year.

*Fixed Exchange Ratio.* The number of PREIT shares of beneficial interest and PREIT Partnership Units to be issued in the merger was fixed and will not be adjusted in the event of an increase in the trading price of PREIT shares of beneficial interest relative to the trading price of Crown common shares, which could cause the total value of the consideration to be paid by PREIT to Crown common shareholders in the merger to be higher than expected.

*Retailer Perception and Anchor Expirations.* There is a risk that retailer perceptions of and confidence in Crown's retail portfolio will not change or improve despite PREIT's management expertise and value-creation strategies and, as a consequence, the combined company will not achieve the growth expected. In addition, there is a risk that certain near term anchor expirations in Crown's retail portfolio will not be resolved the way PREIT expects which may also result in the loss, termination or restructuring of other leases in the same center or property.

*Financial Market Perception.* The financial market's perception of the merger could lead in the near or longer term to a decrease in the trading price of the shares of PREIT.

*Risk that Merger May Not Be Completed.* There is a risk that the merger may not be completed based upon the failure to satisfy covenants or closing conditions set forth in the merger agreement resulting in disruption to the business of PREIT.

*Termination Fee.* PREIT may have to pay \$20 million in break up or termination fees if the merger is not completed under certain specified circumstances. See "The Merger Agreement Termination of the Merger Agreement" beginning on page 91.

*Interest of and Arrangements with Mark E. Pasquerilla.* The PREIT board also considered the fact that various arrangements were required to be made with Mr. Pasquerilla and his affiliates in connection with the merger and related transactions. In particular, the PREIT board considered (1) the agreement giving Mr. Pasquerilla and his affiliates tax protection on certain asset sales by PREIT following the consummation of the merger and affording Mr. Pasquerilla and his affiliates the benefits of certain other tax-related covenants by PREIT and (2) the registration rights granted to Mr. Pasquerilla and his affiliates. In addition, after the consummation of the merger, Mr. Pasquerilla and his affiliates will

own approximately 6.31% of PREIT's outstanding

common shares assuming the redemption of their PREIT Partnership Units. See "Agreements With Mark E. Pasquerilla and Affiliates" beginning on page 109 for a more detailed description of the foregoing agreements.

*Other Negative Factors.* The PREIT board also considered the other risks of the merger described in "Risks Associated with the Merger."

The above discussion is not intended to be exhaustive of all factors considered by the PREIT board but does set forth material positive and negative factors considered by the PREIT board of trustees. At the May 13, 2003 special meeting of the PREIT board, the PREIT trustees unanimously adopted and approved the merger agreement, the merger and the related transactions in light of the various factors described above and other factors that each member of the PREIT board felt was appropriate. In view of the wide variety of factors considered by the PREIT board in connection with its evaluation of the merger and the complexity of these matters, the PREIT board did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather the PREIT board made its determination based on the totality of information presented to it and the deliberations engaged in by it. In considering the factors discussed above, individual trustees may have given different weights to different factors.

#### **Opinion of Lehman Brothers Inc.**

In April 2002, the PREIT board of trustees engaged Lehman Brothers Inc. to act as its financial advisor with respect to its acquisition of Crown and Crown Partnership. On May 13, 2003, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the PREIT board of trustees that, as of such date, and, based upon and subject to certain matters and assumptions stated in its written opinion, from a financial point of view, the weighted average exchange ratio of 0.3225 to be paid by PREIT in connection with the merger was fair to PREIT, in both the scenario where the PREIT multifamily disposition is consummated for \$420 million and the scenario where the PREIT multifamily disposition is not consummated.

**The full text of Lehman Brothers' written opinion, dated May 13, 2003, is attached as Annex B to this joint proxy statement/prospectus. Shareholders may read the opinion for a discussion of the assumptions made, procedures followed, factors considered and limitations placed upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of the Lehman Brothers opinion and the methodology that Lehman Brothers used to render its fairness opinion.**

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the PREIT board of trustees in connection with its consideration of the merger and related transactions. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any PREIT shareholder as to how the shareholder should vote on the approval of the merger agreement, the merger and the related transactions. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not address, the PREIT board of trustees' underlying business decision to proceed with or effect the merger and related transactions. This summary should be read with the full text of the opinion.

In arriving at its opinion, Lehman Brothers reviewed and analyzed:

the merger agreement, the distribution agreement between Crown and Crown Partnership, the contribution agreement between Crown Partnership and PREIT Partnership, the contribution agreement between PREIT and PREIT Partnership, and the other related agreements (collectively, the "Agreements") and the specific terms contemplated thereby;

publicly available information concerning Crown that Lehman Brothers believed to be relevant to its analysis, including Crown's Annual Report on Form 10-K for the fiscal year ended

publicly available information concerning PREIT that Lehman Brothers believed to be relevant to its analysis, including PREIT's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and PREIT's Quarterly Supplemental Disclosure for the quarter ended December 31, 2002;

financial and operating information with respect to the business, operations and prospects of Crown furnished to Lehman Brothers by Crown and PREIT, including financial projections of Crown prepared by Crown management and financial projections of Crown prepared by management of PREIT;

financial and operating information with respect to the business, operations and prospects of PREIT (including the six properties recently acquired from The Rouse Company) furnished to Lehman Brothers by PREIT, including financial projections of PREIT prepared by management of PREIT (the "PREIT Projections");

trading histories of the PREIT common shares and the Crown common shares from January 1, 2001 to May 12, 2003 and a comparison of those trading histories with each other and with those of other companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results and present financial condition of Crown with those of other companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results and present financial condition of PREIT with those of other companies that Lehman Brothers deemed relevant;

the relative financial contributions of PREIT and Crown to the future financial performance of the combined company on a pro forma basis;

the potential pro forma impact on PREIT of the merger and the related transactions, including the effect on PREIT's pro forma funds from operations per share, capitalization and leverage ratios, and the strategic benefits expected by management of PREIT to result from a combination of the businesses of PREIT and Crown;

a capitalization rate analysis of the aggregate Crown portfolio to be acquired in the merger and the related transactions;

publicly available reports prepared by independent research analysts with respect to existing and future financial performance of PREIT and Crown; and

a comparison of the financial terms of the merger and the related transactions with the financial terms of certain other recent transactions that Lehman Brothers deemed relevant.

In addition, Lehman Brothers had discussions with the managements of Crown and PREIT concerning their respective businesses, operations, assets, financial conditions and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of the information. Lehman Brothers further relied upon the assurances of the managements of Crown and PREIT that they were not aware of any facts or circumstances that would make the information inaccurate or misleading in any material respect. With respect to the Crown projections provided by Crown, upon advice of Crown, Lehman Brothers assumed that the projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Crown's management as to the future performance of Crown. With respect



to the Crown projections provided by PREIT, upon advice of PREIT, Lehman Brothers assumed that the projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of PREIT's management as to the future performance of Crown, and, following discussions with PREIT's management, Lehman Brothers further assumed that Crown would perform substantially in accordance with these projections. With respect to the PREIT Projections provided by PREIT, upon advice of PREIT, Lehman Brothers assumed that the projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of PREIT's management as to the future financial performance of PREIT and that PREIT would perform substantially in accordance with the projections. In arriving at its opinion, Lehman Brothers conducted only a limited physical inspection of the properties and facilities of Crown and PREIT and did not make or obtain any evaluations or appraisals of the assets or liabilities of Crown or PREIT (other than net asset value analyses of Crown and PREIT prepared by Lehman Brothers). Upon advice of PREIT, Lehman Brothers assumed that: (1) the merger between PREIT and Crown will qualify as a tax-free reorganization for United States federal and any applicable state income tax purposes; (2) the merger and the related transactions will not change the REIT status of PREIT for federal income tax purposes; (3) the final form of the Agreements would be substantially similar to the drafts reviewed by Lehman Brothers; and (4) the acquisition by PREIT of the two properties remaining to be acquired from The Rouse Company as of the date of its opinion was fully closed in a manner substantially consistent with the acquisition documents relating thereto as of the date of its opinion.

In addition, Lehman Brothers expressed no opinion as to: (1) the prices at which PREIT common shares would trade at any time following the announcement of the merger; (2) the prices at which PREIT common shares would trade following the completion of the merger; or (3) the impact that a change in interest rates would have on the market price of the PREIT common shares in the absence of the proposed merger in comparison to the impact that such a change would have on the market prices of the shares of common stock of the companies included in the peer group.

Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of the opinion.

No limitations were imposed by the PREIT board of trustees on the scope of Lehman Brothers' investigation or the procedures to be followed by Lehman Brothers in rendering its opinion. In connection with rendering its opinion, Lehman Brothers performed certain financial, comparative and other analyses as described below. In arriving at its opinion, Lehman Brothers did not ascribe a specific range of value to Crown or PREIT, but rather made its determination as to the fairness, from a financial point of view, to PREIT of the weighted average exchange ratio of 0.3225 to be paid by PREIT in the merger on the basis of financial and comparative analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances, and therefore, an opinion is not readily susceptible to summary description. Furthermore, in arriving at its opinion, Lehman Brothers did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Lehman Brothers believes that its analyses must be considered as a whole and that considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Crown and PREIT. None of Crown, PREIT, Lehman Brothers or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses were not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth therein. In addition, analyses relating to the value

of businesses do not purport to be appraisals or to reflect the prices at which businesses actually may be sold.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to the PREIT board of trustees. Certain of the summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Accordingly, the analyses listed in the tables and described below must be considered as a whole.

### ***Stock Trading History***

During the period from May 13, 2002 to May 12, 2003, the closing price per common share of Crown ranged from \$7.84 to \$10.75 per share. Based on the exchange ratio for the Crown common shares of 0.3589, the implied transaction price is \$10.09. Lehman Brothers noted that

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

this represents a 5.6% discount to Crown's last reported closing price on May 12, 2003 of \$10.69.

### *Historical Exchange Ratio Analysis*

Lehman Brothers also compared the historical average share prices of Crown and PREIT common shares during different periods from May 13, 2001 to May 12, 2003 in order to determine the implied average exchange ratio that existed for those periods. The following table indicates the average exchange ratio of PREIT common shares for Crown common shares for the periods indicated:

	<b>Implied Average Exchange Ratio(1)</b>
At May 12, 2003	0.3804x
Trailing 10-trading day period	0.3660x
Trailing 20-trading day period	0.3589x
Trailing 30-trading day period	0.3545x
Trailing 60-trading day period	0.3542x
Trailing 90-trading day period	0.3556x
Trailing 180-trading day period	0.3581x
Trailing 12-month period	0.3571x
Trailing 24-month period	0.3563x

- (1) Represents average closing price of a Crown common share for the indicated period divided by the average closing price of a share of PREIT common share for the same period.

Lehman Brothers noted that the exchange ratio for the Crown common shares of 0.3589 is below the implied average exchange ratio at May 12, 2003 and substantially consistent with the implied average exchange ratio for the other periods presented above. Lehman Brothers also noted that the implied value range of Crown's common shares, based on PREIT's last reported closing price on May 12, 2003 of \$28.10, and calculated by multiplying \$28.10 by the low and high implied exchange ratios of 0.3542x and 0.3804x during the measurement period, is \$9.95 to \$10.69.

### *Net Asset Value Analysis*

Lehman Brothers performed a net asset value analysis on Crown using both the capitalization rate method and the discounted cash flow method. For both methods Lehman Brothers relied on balance sheet information provided by Crown and on net operating income projections provided by PREIT. By applying nominal capitalization rates of 9.50%, 9.75% and 10.00% to estimated 2003 net operating income, Lehman Brothers calculated Crown's net asset value per share as \$11.12, \$10.18 and \$9.30, respectively. By applying discount rates of 10.50%, 10.75% and 11.00% to net operating income less

47

capital expenditures, and exit nominal capitalization rates of 10.00%, 10.25% and 10.50% to forward 12 month estimated net operating income, Lehman Brothers calculated Crown's net asset value per share as \$10.44, \$9.51 and \$8.62, respectively.

Lehman Brothers also performed a net asset value analysis on PREIT using the capitalization rate method. In performing the analysis, Lehman Brothers relied on balance sheet information provided by PREIT. For the purposes of this analysis, Lehman Brothers assumed that the PREIT multifamily disposition would be completed for \$420 million. By applying nominal capitalization rates of 9.25%, 9.50% and 9.75% to estimated 2003 net operating income produced by PREIT's wholly-owned assets (nominal capitalization rates applied to estimated 2003 net operating income from joint venture owned assets were 150 basis points higher), Lehman Brothers calculated PREIT's net asset value per share as \$31.97, \$30.13 and \$28.37, respectively.

Lehman Brothers analyzed the ratio of net asset values of Crown to PREIT. The following table indicates the ratio of net asset values and the implied price range of a common share of Crown:

Crown NAV	PREIT NAV(1)	Ratio of NAVs	Implied Price Range
-----------	--------------	---------------	---------------------

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	<del>Crown NAV</del>		<del>PREIT NAV(1)</del>		<del>Ratio of NAVs</del>		PREIT Stock Price	<del>Implied Price Range</del>	
	High	Low	High	Low	High	Low		High	Low
	Cap Rate Method	<del>\$ 11.12</del>	\$ 9.30	<del>\$ 31.97</del>	\$ 28.37	<del>0.3918x</del>		0.2908x	\$ 28.10
Disc. Cash Flow Meth.	\$ 10.44	\$ 8.62	\$ 31.97	\$ 28.37	0.3681x	0.2696x	\$ 28.10	\$ 10.34	\$ 7.58

(1) PREIT NAV calculated solely based on capitalization rate method.

In addition, Lehman Brothers analyzed the ratio of net asset values of Crown to PREIT based on Wall Street research analyst estimates. The following table indicates the ratio of net asset values and the implied price range of a common share of Crown:

	Crown NAV		PREIT NAV		Ratio of NAVs		PREIT Stock Price	Implied Price Range	
	High	Low	High	Low	High	Low		High	Low
	Analyst Estimates	\$ 11.00	\$ 7.29	\$ 30.00	\$ 28.18	0.3903x		0.2430x	\$ 28.10

*Comparable Trading Company Analysis*

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers reviewed and compared specific financial and operating data relating to Crown with the companies comprising a peer group composed of The Macerich Company, CBL & Associates Properties, Inc., Taubman Centers, Inc. and Glimcher Realty Trust, as well as a secondary peer group composed of Simon Property Group Inc., General Growth Properties and The Rouse Company. Using publicly available information, Lehman Brothers calculated and analyzed each company's current stock price, dividend yield, market capitalization, historical and projected funds from operations trading multiples and growth rates and leverage ratios. The following table indicates the mean and median values for the peer groups as well as the values for Crown based on the exchange ratio for the Crown common shares of 0.3589 and the closing price of PREIT common shares on May 12, 2003.

48

	FFO Multiple			FFO Growth Rate		Leverage	
	Yield	2002E	2003E	'01-'02	'02-'03	Debt/ MarCap	Debt+Pref/ Mar.Cap
	<u>Peer Group:</u>						
Mean	6.8%	10.1x	9.7x	7.7%	3.7%	54.1%	59.4%
Median	6.4%	10.2x	9.6x	10.0%	3.6%	54.7%	61.3%
<u>Secondary Peer Group:</u>							
Mean	5.3%	10.0x	9.4x	7.9%	7.2%	54.8%	59.8%
Median	4.9%	10.3x	9.2x	8.0%	6.3%	52.8%	59.2%
Crown(1):	8.4%	7.4x	7.0x	-2.2%	6.6%	60.1%	69.9%
Crown Adj. To Mean Leverage of Comps(1)(2):	8.4%	9.0x	8.5x	-19.8%	6.5%	49.6%	59.4%

(1) Valuation metrics based upon the transaction price of \$10.09 as calculated by multiplying PREIT's closing price per common share on May 12, 2003 of \$28.10 by the exchange ratio for the Crown common shares of 0.3589.

(2)

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

For the purposes of this calculation, Lehman Brothers adjusted Crown's leverage to the Peer Group mean leverage.

Based on Crown's actual 2002 funds from operations ("FFO") per share of \$1.36 and the peer group trading multiples, Lehman Brothers calculated that the implied value of Crown's common share ranged from \$11.56 to \$15.50.

### *Comparable Transaction Analysis*

Lehman Brothers reviewed the premiums paid in selected retail REIT merger and acquisition transactions valued at up to \$1.5 billion that Lehman Brothers deemed comparable to this transaction and which are set forth in the table below. Lehman Brothers calculated the premium per share paid by the acquiror compared to: (1) the share price of the target company on the day immediately prior to the signing of the merger agreement; (2) the share price of the target company 20 days prior to the announcement of the transaction; and (3) the highest share price of the target company during the 52 weeks prior to the closing. The following table indicates the premium of each transaction reviewed by Lehman Brothers and the mean and median premium:

Target	Acquiror	Previous Close	20 Days Prior Share Price	Prior 52 Week High Price	Trailing 12 Month FFO Multiple
Center Trust	Pan Pacific	31.2%	34.5%	5.7%	7.7x
IRT	Equity One	4.7%	3.0%	(2.6%)	9.6x
JDN	Developers Diversified Realty	(7.6%)	(12.8%)	(17.1%)	8.3x
JP Realty	General Growth	6.8%	13.1%	6.5%	9.2x
Western	Pan Pacific	2.0%	4.1%	0.5%	9.0x
Bradley	Heritage Property	18.9%	28.0%	2.3%	9.4x
Price REIT	Kimco	6.7%	10.8%	5.4%	12.4x
	Mean	9.0%	11.5%	0.1%	9.4x
	Median	6.7%	10.8%	2.3%	9.6x

Lehman Brothers calculated the implied price per share based on the mean and median premiums listed in the above table and the respective share price of Crown common shares and obtained a price range of \$10.76 to \$11.65. In addition, Lehman Brothers calculated the implied price per share based

49

on the mean and median FFO multiples listed in the above table and obtained a price range of \$12.74 to \$13.12 for a common share of Crown.

### *Contribution Analysis*

Lehman Brothers performed an analysis of the respective contributions of Crown and PREIT to the estimated pro forma 2004 common share ownership, net operating income, FFO and funds available for distribution, or FAD, based on projections provided by PREIT, and found that PREIT would contribute 59.3%, 52.2%, 57.1% and 59.6% to estimated pro forma 2004 common share ownership, net operating income, FFO and FAD, respectively, and that Crown would contribute 40.7%, 47.8%, 42.9% and 40.4% to estimated pro forma 2004 common share ownership, net operating income, FFO and FAD, respectively. For purposes of this analysis, the calculations of net operating income, FFO and FAD did not include any potential synergies or cost savings attributable to the merger and the related transactions or any adjustments due to purchase accounting requirements in connection with the merger and the related transactions. FAD was calculated by calculating the FFO less the amortization of the premium of the assumed above market rate debt less straight line rental income less capitalized leasing commissions, tenant improvements and capital expenditure reserves.

### *Pro Forma Analysis*

Lehman Brothers analyzed the pro forma effect of the merger and the related transactions on PREIT's FFO per share and FAD per share in 2003 and 2004 and PREIT's balance sheet using projections for Crown and PREIT supplied by PREIT. For the purposes of this analysis, Lehman Brothers assumed that the Rouse acquisition and the PREIT multifamily disposition would be completed pursuant to the relevant

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

agreements. Lehman Brothers estimated that, based on these assumptions, the pro forma impact (based on the midpoint of the estimated range) of the merger and the related transactions on the FFO per share and FAD per share of PREIT in 2003 and 2004 would be as follows:

	<b>Pro Forma Impact Accretion/(Dilution)</b>	
	<b>2003(1)</b>	<b>2004</b>
	FFO per share	(1.6%)
FAD per share	(8.3%)	3.1%

(1)

Assumes the merger closes on October 1, 2003.

Based on such assumptions, Lehman Brothers estimated that pro forma for the merger, PREIT's total debt as a percentage of total market capitalization will increase to 60.9% from 58.1% and its total debt and preferred stock as a percentage of total market capitalization will increase to 65.5% from 58.1%.

The financial forecasts that underlie the above analysis are subject to substantial uncertainty and, therefore, actual results may be substantially better or worse.

### *Research Estimates*

Lehman Brothers observed the 12 month price target, net asset value, buy/sell recommendation, FFO per share estimate and adjusted funds from operations, or AFFO, per share estimate for Crown and PREIT based upon current Wall Street research analyst estimates. The Crown research estimates were from Stifel, Nicolaus & Company, Prudential, Citigroup, Hilliard Lyons, Ferris, Baker Watts, Friedman Billings Ramsey and Green Street Advisors. The PREIT research estimates were from Legg Mason Wood Walker, Lehman Brothers, U.S. Bancorp Piper Jaffray and J.P. Morgan. For Crown, the 12 month price targets ranged from \$8.00 to \$10.50, and the net asset values ranged from \$7.29 to

50

\$11.00. For PREIT, the 12 month price targets ranged from \$28.00 to \$30.00, and the net asset values ranged from \$28.18 to \$30.00. The averages were as follows:

	<b>12 Month Price Target</b>	<b>NAV</b>	<b>FFO Per Share</b>			<b>AFFO Per Share</b>		
			<b>2002A</b>	<b>2003</b>	<b>2004</b>	<b>2002A</b>	<b>2003</b>	<b>2004</b>
Crown	\$ 9.89	\$ 9.51	\$ 1.36	\$ 1.46	\$ 1.49	\$ 0.99	\$ 1.10	\$ 0.94
PREIT	\$ 29.33	\$ 29.50	\$ 2.85	\$ 3.20	\$ 3.34	\$ 2.38	\$ 2.50	N/A

\* \* \*

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with merger and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The PREIT board of trustees selected Lehman Brothers because of its expertise, reputation and familiarity with the REIT industry.

Lehman Brothers' total fees for its services in connection with the merger and the related transactions will be \$4.375 million, of which \$1.8 million has been paid and \$2.575 million is payable upon the completion of the merger. PREIT also has agreed to reimburse Lehman Brothers for reasonable expenses incurred in connection with the merger and related transactions and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by the PREIT board of trustees and the rendering of its opinion. Furthermore, PREIT has agreed, in connection with Lehman Brothers' engagement as financial advisor for the merger and the related transactions, that it shall have the right, but not the obligation, for two years from the date of the engagement letter, to arrange for certain equity financings undertaken by PREIT in connection with the merger and PREIT's acquisition of six shopping malls from Rouse and to receive customary compensation for such services.

Lehman Brothers has from time to time provided certain investment banking and financial advisory services to PREIT, for which they have received customary fees and commissions, and they expect to provide these services to PREIT in the future, for which they expect to receive customary fees and commissions. Pursuant to the terms of the engagement letter, Lehman Brothers acted as underwriter in connection with PREIT's recently completed public offering of 6.325 million shares, for which its total fees and commissions were approximately \$2.4 million. See "Recent Developments Equity Offering" on page 27.

**Crown's Reasons for the Merger; Recommendation of the Crown Board**

Crown's board of trustees unanimously approved the merger agreement, the merger and the related transactions. In the course of reaching its decision to approve the merger agreement, the merger and the related transactions, Crown's board of trustees consulted with certain of Crown's executive officers, as well as its outside legal counsel and its financial advisor. At a special meeting held on May 13, 2003, Crown's board of trustees unanimously:

determined that the merger is in the best interests of Crown and that the consideration is fair, from a financial point of view, to the holders of Crown common shares;

approved the merger agreement, the merger and the related transactions;

directed that the merger agreement be submitted for consideration by the holders of Crown common shares; and

recommended that holders of Crown common shares vote FOR the proposal to approve the merger agreement, the merger and the related transactions.

51

---

In determining whether to vote FOR approval of the merger agreement, the merger and the related transactions, holders of Crown common shares should be aware that some members of the Crown board of trustees, as well as certain Crown executive officers, have or may have interests in the merger that may differ from, or are in addition to, the interests of holders of Crown common shares generally. See "Interests of Trustees and Executive Officers of Crown and PREIT in the Merger" beginning on page 65.

In determining whether to approve the merger agreement, the merger and the related transactions, the Crown board of trustees identified and considered a variety of factors that might impact the long-term as well as short-term interests of Crown and the holders of Crown common shares, including the possibility that these interests may be best served by the continued independence of Crown. As part of its deliberations, Crown's board of trustees evaluated the historical, recent and prospective financial condition, results of operations, capitalization, business quality and operating, strategic and financial risks of Crown and PREIT, considered separately for each entity and on a combined basis for the combined company, including:

revenues, net operating income, or NOI, funds from operations, or FFO, capital expenditures, tenant incentives and obligations, funds available for distribution, or FAD, and cash available for distribution, or CAD;

operating performance, trade area demographics and tenant profile of the properties, taken individually and as a whole;

on-balance sheet and off-balance sheet capitalization, including: (1) the amount, nature, and terms of indebtedness; (2) debt service requirements and fixed charge coverage; and (3) the amount, nature and terms of preferred and common equity accounts;

the amount and associated yield of dividends received by holders of Crown common shares and PREIT common shares; and

the liquidity, ownership type and valuation of Crown common shares and PREIT common shares, considered in terms of per share market trading prices, multiple of projected FFO and implied capitalization rate of underlying NOI.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Set forth below is a discussion of the material positive and negative factors considered by the Crown board of trustees in making its determination to approve the merger agreement, the merger and the related transactions, no one of which was determinative.

### *Positive Factors Considered by the Crown Board*

In making the determination described above, the Crown board of trustees discussed with Crown senior management, as well as its financial advisors and legal counsel, and considered a number of factors, including, among others, the following material positive factors:

The Crown board of trustees' assessments that:

meaningful uncertainties exist as to the timing and extent of Crown's ability, as an independent company, to (1) achieve its financial projections; (2) grow to a size sufficient to optimize its tenant relationships and effectively compete in a consolidating REIT industry; and (3) access capital sources, in particular the public capital markets, and access capital at a low cost, both in absolute terms and relative to its peer companies;

the combination of the Crown and PREIT property portfolios in shared and complementary markets could provide holders of Crown common shares with access to a portfolio of properties having (1) stronger operating fundamentals on average than Crown's existing portfolios, based on trade area demographics and tenant sales, among other metrics; (2) the

52

---

leading market share of mall retail space in the greater Philadelphia, Pennsylvania metropolitan area, which is the fourth-largest retailing market in the United States by sales dollars; and (3) greater tenant diversification than Crown's existing portfolio, which could provide increased cash flow stability, additional sources of income and collateral for borrowing purposes, and lower relative exposure to the negative impact of any past or future tenant bankruptcies or disruptions;

PREIT's experience in and perceived capability to create value in middle-market retail properties would likely enhance the value of Crown's portfolio; and

The larger total market capitalization of the combined company, approximately \$2.7 billion on an implied *pro forma* basis as of May 13, 2003, would increase the opportunity for increased institutional ownership, research coverage, liquidity and float over time and, as a result, could contribute to the achievement of a lower overall cost of capital for, as well as the increased valuation of the common shares of, the combined company compared to those of Crown historically.

The agreement by PREIT that, following completion of the merger, PREIT will increase its quarterly cash dividend of \$0.51 per share to \$0.54 per share, or \$2.16 per annum, representing an annual increase of \$0.12 per share, or 5.9%.

The terms of the merger agreement, including that:

Each Crown common share will be converted into the right to receive 0.3589 PREIT common shares, which as of the close of trading on May 13, 2003 represented an implied value of the consideration to be received by holders of each Crown common share of \$10.05, which:

was calculated using an exchange ratio based on the average closing price of PREIT common shares and Crown common shares for the 20 trading days prior to and including May 12, 2003;

represented a premium of 15.0% compared to the median net asset value, or NAV, per share of Crown common shares of \$8.74, as calculated by Wachovia Securities, as described below;

equaled a multiple of 6.9 times Crown management's projected 2003 FFO per share of \$1.46, compared to Crown's average historical price-to-projected one-year forward FFO multiple for the period January 1, 1999 through December 31, 2002 equal to approximately 5.4 times; and

represents capitalization of Crown management's projected 2003 NOI of approximately \$126.1 million at an implied nominal rate of 9.62%.

as a condition to closing, the merger qualifies as a tax-free reorganization under the Internal Revenue Code with respect to holders of Crown common shares (see "Material Federal Income Tax Consequences Relating to the Merger" beginning on page 118); and

two current members of the Crown board of trustees, including Mark E. Pasquerilla, Crown's chairman, chief executive officer and president, and a second trustee (subsequently chosen by PREIT to be Donald F. Mazziotti), will serve for a period of time on the board of trustees of the combined company.

The expected beneficial impact for holders of Crown common shares of the reduction of the percentage basic common economic interest of Mark E. Pasquerilla and certain of his affiliated entities from approximately 31.3% as of December 31, 2002 to 10% on a combined company basis as a result of (1) certain pre-merger transactions in which reductions occurred with respect

53

---

to the percentage participation rights of Crown Partnership Units owned by Mark E. Pasquerilla and certain of his affiliated entities, which may not have occurred in the absence of the anticipated merger, and (2) the consummation of the merger.

The results of the due diligence review of, among other things, PREIT's business and operations, financial condition and management practices and procedures, conducted on behalf of Crown's board of trustees by members of Crown senior management, as well as its financial advisors and legal counsel, including, among other things, site tours of substantially all of PREIT's retail properties.

The fact that Crown received no substantive proposals for a strategic transaction from other potential acquirors or combination partners.

The financial presentation of Wachovia Securities to the Crown board of trustees on May 13, 2003, and the oral opinion of Wachovia Securities rendered to the Crown board of trustees on that date to the effect that, as of that date, and subject to and based upon the assumptions made, procedures followed, matters considered and limitations of the review undertaken as set forth in its written opinion of the same date, the consideration to be received by holders of Crown common shares pursuant to the merger is fair, from a financial point of view, to such holders.

#### ***Negative Factors Considered by the Crown Board***

The Crown board of trustees also considered the following potentially negative factors, among others, in determining whether to approve the merger agreement, the merger and the related transactions:



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The risk that the anticipated strategic and financial benefits of the merger to the holders of Crown common shares may not be realized as a result of, among other things, possible changes in the real estate and retail industries affecting the markets in which the combined company will operate or in general.

The substantial management time, effort and resources required to effectuate, as well as the significant costs, uncertainties and risks associated with, the successful financing, consummation, integration and/or operation by PREIT of:

the sale of its multifamily properties;

its acquisition of certain retail mall properties from The Rouse Company, in light of the fact that the combined company's retail mall portfolio after such acquisition and completion of the merger is expected to be more than twice the size of PREIT's retail portfolio as of December 31, 2002 and may include certain historically under-performing retail mall properties acquired as part of the Rouse acquisition; and

the merger of Crown with and into PREIT, particularly in light of the absence of any financing-related conditions to the merger, which could mean the anticipated refinancing of PREIT's debt might not occur even if the merger is completed.

The potential for significant loss of value by holders of Crown common shares, as well as the potential negative impact upon the operations and prospects of an independent Crown, in the event that the merger is not consummated, resulting from, among other things:

the likely decline in trading value of Crown common shares in the event of a termination of the merger agreement, notwithstanding the possibility that pursuant to the merger agreement Crown may be paid a \$20 million termination fee by PREIT under certain circumstances;

54

---

the requirement for Crown to pay termination expenses to PREIT of \$7 million if the merger agreement is terminated under certain circumstances or of \$3.5 million if the merger agreement is terminated under certain other circumstances; and

the impact of certain on-going restrictions on Crown's operations between signing and closing or termination pursuant to the merger agreement.

The potential negative effect on Crown's ability to retain key employees as a result of the public announcement of the merger or, possibly, the termination of the merger agreement.

The sustainability of or increase to, on an independent basis, the higher valuation of PREIT common shares since March 6, 2003 compared to the recent historic valuation of PREIT common shares prior to March 6, 2003.

The fact that, pursuant to the merger agreement:

the consideration to be received by holders of Crown common shares as of the close of trading on May 13, 2003 represented an implied value of the consideration to be received by holders of Crown common shares of \$10.05 which:

represented a discount of 6.5% as compared to the \$10.75 closing price per share of Crown common shares on May 13, 2003;

does not reflect a premium over the average closing price per share of Crown common shares over the 20 trading days prior to May 13, 2003; and

equals a multiple of 6.9 times Crown management's projected 2003 FFO per share of \$1.46, as compared to the average price-to-projected 2003 FFO multiple of certain publicly-traded retail mall companies of approximately 9.3 times as of May 13, 2003, as calculated by Wachovia Securities, as described below;

the consideration to be received by holders of Crown common shares will be in the form of PREIT common shares at a fixed exchange ratio, which depending on the closing price of PREIT common shares upon the completion of the merger, could result in a loss of value for the holders of Crown common shares compared to historical prices paid for Crown common shares prior to and including May 13, 2003; and

the election of two members of the current Crown board of trustees to serve as members of the expected 11 member board of trustees of the PREIT is not proportionate to the approximately 42% basic common economic ownership of the holders of Crown common shares *pro forma* following the completion of the merger assumed by the Crown board of trustees in the deliberations.

The fact that holders of Crown common shares currently receive an annual per share dividend of \$0.86 and that after giving effect to the merger and the proposed increase in PREIT's dividend to a rate of \$2.16 per share per year, holders of Crown common shares will receive the equivalent of \$0.775 per Crown common share per year, or a 9.86% reduction from the current dividend on Crown common shares.

Crown senior management's expectation that a greater percentage of the combined company's future dividends on common shares would be largely taxable to recipients compared to the recent trends for dividends paid on Crown common shares, which for income tax purposes primarily have constituted a non-taxable return of capital, thus further reducing the effective after-tax dividend return for taxable holders of the combined company's common shares relative to recent trends for holders of Crown common shares. However, Crown management recognized that dividends paid on Crown common shares in the future may not continue to be treated primarily as a non-taxable return of capital.

55

---

The Crown board of trustees considered the possibility that under certain circumstances completion of the Rouse shopping mall acquisition, the multifamily disposition and the possible raising of additional equity by PREIT could result in pro forma FFO per share of PREIT below estimates.

The above discussion of the material factors considered by the Crown board of trustees is not intended to be exhaustive, but does set forth the principal positive and negative factors considered by the Crown board of trustees. The Crown board unanimously approved the merger agreement, the merger and the related transactions and recommended approval of the merger in light of the various factors described above and other factors that each member of the Crown board of trustees felt was appropriate.

In view of the wide variety of factors considered by the Crown board in connection with its evaluation of the merger and the complexity of these matters, the Crown board did not consider it practical and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, the Crown board made its recommendation based on the totality of information presented to and the investigation conducted by it. In considering the factors discussed above, individual trustees may have given different weights to different factors.

#### **Opinion of Wachovia Securities**

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Crown's board of trustees retained Wachovia Securities to act as its exclusive financial advisor in connection with the merger. The board selected Wachovia Securities to act as its exclusive financial advisor based on Wachovia Securities' qualifications, expertise and reputation and its knowledge of Crown's business and affairs. At the meeting of the Crown board of trustees on May 13, 2003, Wachovia Securities rendered its oral opinion, subsequently confirmed in writing as of that date, that as of May 13, 2003, and subject to and based on the assumptions made, procedures followed, matters considered and limitations of the review undertaken, in its opinion, the consideration to be received by holders of Crown common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders.

**The full text of Wachovia Securities' opinion, dated as of May 13, 2003, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Wachovia Securities, is attached as Annex C to this joint proxy statement/prospectus. We urge you to read this opinion carefully and in its entirety. This summary is qualified in its entirety by reference to the full text of the opinion.**

**Wachovia Securities' opinion, which was directed to Crown's board, addressed only the fairness, from a financial point of view, as of the date of the opinion and subject to and based on the assumptions made, procedures followed, matters considered and limitations of the review undertaken, in its opinion, to holders of Crown common shares of the consideration to be received by such holders in the merger pursuant to the merger agreement, and did not address any other aspect of the merger.**

**At the Crown board of trustees' direction, Wachovia Securities' opinion did not address Crown's underlying business decision to proceed with or effect the merger, nor did it constitute a recommendation to any Crown shareholder as to how the shareholder should vote with respect to the merger. Wachovia Securities was neither asked to, nor did it, offer any opinion as to any term of the merger agreement or the form of the merger, other than as to the fairness, from a financial point of view, as of the date of the opinion and subject to and based on the assumptions made, procedures followed, matters considered and limitations of the review undertaken, in its opinion, to the holders of Crown common shares of the consideration to be received by such holders in the merger pursuant to the merger agreement. In rendering its opinion, Wachovia Securities assumed, with the consent of the Crown board of trustees, that each party to the merger agreement would comply with all the material terms of the merger agreement.**

56

---

In arriving at its opinion, Wachovia Securities, among other things:

reviewed the merger agreement, including the financial terms of the merger agreement;

reviewed certain business, financial and other information, including financial forecasts, regarding each of Crown and PREIT that was publicly available or furnished to Wachovia Securities by Crown's and PREIT's management, and discussed each company's business and prospects with its management;

considered certain financial data for each of Crown and PREIT and compared that data with similar data regarding certain other publicly traded companies that Wachovia Securities deemed to be relevant;

compared the proposed financial terms of the merger agreement with the financial terms of certain other business combinations and transactions that Wachovia Securities deemed to be relevant;

calculated a net asset value per common share for each company based on its 2003 projected net operating income, adjusted for capital reserves;

developed discounted cash flow models for each of Crown and PREIT;

reviewed the potential pro forma financial impact of the merger on PREIT; and

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

considered other information such as financial studies, analyses and investigations, as well as financial and economic and market criteria that Wachovia Securities deemed to be relevant.

In connection with its review, Wachovia Securities relied upon the accuracy and completeness of the foregoing financial and other information and did not assume any responsibility for any independent verification of the information. With respect to Crown's and PREIT's financial forecasts, Wachovia Securities assumed that each was reasonably prepared and reflected the best current estimates and judgments of management as to the future financial performance of each company. Wachovia Securities discussed each of Crown's and PREIT's financial projections with each company's management, but assumed no responsibility for and expressed no view as to financial projections of either Crown or PREIT or the assumptions upon which they were based. In arriving at its opinion, Wachovia Securities conducted limited physical inspections of certain of the properties or facilities of each of Crown and PREIT, but did not make any comprehensive evaluations or appraisals of the assets or liabilities of Crown or PREIT.

Wachovia Securities also assumed that the merger contemplated by the merger agreement would be consummated on the terms described in the merger agreement, without waiver of any material terms or conditions, and that in the course of obtaining any necessary legal, regulatory or third-party consents and/or approvals, no restrictions would be imposed that would have a material adverse effect on the merger or other actions contemplated by the merger agreement. Wachovia Securities further assumed that the merger would qualify as a tax-free reorganization and that, after the merger, PREIT would continue to qualify as a REIT for federal and state income tax purposes. Wachovia Securities' opinion is necessarily based on economic, market, financial and other conditions and the information made available to it as of May 13, 2003.

Wachovia Securities' opinion does not address the relative merits of the merger or other actions contemplated by the merger agreement compared with other business strategies that may have been considered by Crown's management and/or board of trustees or any committee thereof. Wachovia Securities did not consider, nor did it express any opinion with respect to, the prices at which Crown's common shares or PREIT's common shares will trade, if at all, following announcement of the merger.

The following summaries of Wachovia Securities' financial analyses present some information in tabular format. In order to fully understand the financial analyses used by Wachovia Securities, the

57

---

tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Accordingly, the analyses listed in the tables and described below must be considered as a whole. Considering any portion of such analyses and the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Wachovia Securities' opinion.

No limitations were imposed by Crown on the scope of Wachovia Securities' investigation or the procedures to be followed by Wachovia Securities in rendering its opinion. In connection with the preparation and delivery of its opinion, Wachovia Securities performed a variety of financial and comparative analyses, which are described below.

In arriving at its opinion, Wachovia Securities did not ascribe a specific range of value to Crown, but rather made its determination on the basis of the multiple financial and comparative analyses described below.

### *Comparable Trading Company Analysis*

Using publicly available information and estimates of 2003 funds from operations (FFO) published by First Call, Wachovia Securities analyzed the market value of certain trading multiples of selected publicly traded REITs that own retail real estate and that Wachovia Securities believed were reasonably comparable to Crown. These companies included:

CBL & Associates Properties, Inc.  
Glimcher Realty Trust  
The Rouse Company

General Growth Properties, Inc.  
The Macerich Company  
Simon Property Group, Inc.

For each of the comparable companies, Wachovia Securities calculated the multiples of market value to projected funds from operations for 2003, as reported by First Call, and based on May 9, 2003 closing share prices. Wachovia Securities calculated a range consisting of the high, mean, median and low multiples for the comparable companies and applied this range to the consensus First Call 2003 FFO estimate for Crown of \$1.46 resulting in the following range of implied share prices for each common share of Crown:

2003 FFO Multiple	Implied Crown Share Price
----------------------	------------------------------

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

High	9.8x	\$	14.28
Mean	9.3x	\$	13.57
Median	9.3x	\$	13.57
Low	8.5x	\$	12.40

For PREIT, a broader list of publicly traded REITs that own retail real estate was selected for comparison purposes consisting of:

CBL & Associates Properties, Inc.	Colonial Properties Trust
Developers Diversified Realty Corporation	General Growth Properties, Inc.
Glimcher Realty Trust	The Macerich Company
Simon Property Group, Inc.	Washington Real Estate Investment Trust

58

For each of the comparable companies, Wachovia Securities calculated the multiples of market value to projected funds from operations for 2003, as reported by First Call, and based on May 9, 2003 closing share prices. Wachovia Securities calculated a range consisting of the high, mean, median and low multiples for the comparable companies and applied this range to the consensus First Call 2003 FFO estimate for PREIT of \$3.20 resulting in the following range of implied share prices for each common share of PREIT:

	2003 FFO Multiple	Implied PREIT Share Price
High	13.7x	\$ 43.69
Mean	9.9x	\$ 31.81
Median	9.6x	\$ 30.63
Low	8.5x	\$ 27.17

Based upon the high and low implied common share prices of Crown and PREIT calculated by Wachovia Securities in its comparable trading company analysis, Wachovia Securities calculated the following implied exchange ratios in the proposed merger.

**Crown Low Share Price to PREIT High Share Price**

Crown: Low: \$12.40	PREIT High: \$43.69
Implied Exchange Ratio:	.2838

**Crown High Share Price to PREIT Low Share Price**

Crown High: \$14.28	PREIT Low: \$27.17
Implied Exchange Ratio:	.5256

Wachovia Securities noted that the exchange ratio of .3589 in the proposed merger is within this range of implied exchange ratios.

None of the companies utilized in the above analysis for comparative purposes is identical to Crown or PREIT. Accordingly, a complete analysis of the results of the foregoing calculations cannot be limited to a quantitative review of such results and involves complex considerations and judgments concerning the differences in the financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable companies as well as the potential trading value of Crown or PREIT. In addition, the multiples of common share price to projected 2003 FFO per share for the comparable companies are based on projections prepared by securities analysts using only publicly available information. Accordingly, such estimates may or may not prove to be accurate.

***Comparable Transaction Analysis***

Using publicly available information, Wachovia Securities examined selected transactions involving publicly traded real estate companies announced from September 25, 2000 to the date of its opinion. These transactions were deemed relevant by Wachovia Securities principally based on the consistency of

59

property types owned by the acquirors and targets with those owned by Crown and PREIT. The selected transactions were:

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Target	Acquiror
Center Trust, Inc.	Pan Pacific Retail Properties, Inc.
IRT Property Company	Equity One, Inc.
JDN Realty Corporation	Developers Diversified Realty Corporation
JP Realty, Inc.	General Growth Properties, Inc.
Urban Shopping Centers, Inc.	Rodamco North America NV

Using publicly available information and estimates of future financial results published by First Call, Wachovia Securities calculated, among other things, a range consisting of the high, mean, median and low adjusted market values to forward FFO multiples for the comparable transactions and applied this range to the consensus First Call 2003 FFO estimate for Crown of \$1.46 and PREIT of \$3.20 resulting in the following range of implied share prices for each common share of Crown and PREIT.

Crown	Transaction FFO Multiple	Implied Crown Share Price
High	12.9x	\$ 18.83
Mean	9.6x	\$ 14.02
Median	9.1x	\$ 13.29
Low	7.5x	\$ 10.95
PREIT	Transaction FFO Multiple	Implied PREIT Share Price
High	12.9x	\$ 41.28
Mean	9.6x	\$ 30.72
Median	9.1x	\$ 29.12
Low	7.5x	\$ 24.00

Based upon the high and low implied common share prices of Crown and PREIT calculated by Wachovia Securities in its comparable transaction analysis, Wachovia Securities calculated the following implied exchange ratios in the proposed merger.

**Crown Low Share Price to PREIT High Share Price**

Crown Low: \$10.95	PREIT High: \$41.28
Implied Exchange Ratio:	.2653

**Crown High Share Price to PREIT Low Share Price**

Crown High: \$18.83	PREIT Low: \$24.00
Implied Exchange Ratio:	.7846

Wachovia Securities noted that the exchange ratio of .3589 in the proposed merger is within this range of implied exchange ratios.

Because the market conditions, rationale and circumstances surrounding each of the transactions analyzed were specific to each transaction and because of the inherent differences between Crown's businesses, operations and prospects and those of the comparable acquired companies, Wachovia Securities believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the analysis. Accordingly, Wachovia Securities also made qualitative judgments concerning

differences between the characteristics of these transactions and the proposed merger that could affect Crown's acquisition values and those of such acquired companies.

***Premiums Paid Analysis***

Wachovia Securities reviewed the same transactions used in the comparable transaction analysis to analyze the premium or discount paid by the acquiror in relation to the closing market price of the target company's common shares 30 days, 60 days and 90 days prior to the announcement of the respective transaction.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Using publicly available information, Wachovia Securities calculated, among other things, a range consisting of the high and low premium paid in these transactions and applied this range to Crown's common share closing market price of \$10.75 and PREIT's common share closing price of \$28.85 as of May 9, 2003. This analysis resulted in the following range of implied share prices for each common share of Crown and PREIT.

<b>Crown</b>	<b>Premium Paid on Comparable Transactions</b>	<b>Implied Crown Share Price</b>
High	43.5%	\$ 15.43
Low	(12.0)%	\$ 9.46
<b>PREIT</b>	<b>Premium Paid on Comparable Transactions</b>	<b>Implied PREIT Share Price</b>
High	43.5%	\$ 41.40
Low	(12.0)%	\$ 25.39

Based upon the high and low implied common share prices of Crown and PREIT calculated by Wachovia Securities in its analysis, Wachovia Securities calculated the following implied exchange ratios in the proposed merger.

### **Crown Low Share Price to PREIT High Share Price**

Crown Low: \$9.46	PREIT High: \$41.40
Implied Exchange Ratio:	.2285

### **Crown High Share Price to PREIT Low Share Price**

Crown High: \$15.43	PREIT Low: \$25.39
Implied Exchange Ratio:	.6077

Wachovia Securities noted that the exchange ratio of 0.3589 in the proposed merger is within this range of implied exchange ratios.

### *Net Asset Value Analysis*

Using information provided by Crown, Wachovia Securities calculated the net asset value per share of Crown. For this calculation, Wachovia Securities applied a range of capitalization rates from 9.50% to 10.50% to Crown management's projected 2003 net operating income. The resulting gross real estate value was added to the gross value of Crown's other assets, less the outstanding debt of Crown and Crown's obligations pursuant to joint ventures, adjustments for debt (marked-to-market) and certain other liabilities, to arrive at an equity net asset value per share. In applying the range of capitalization rates, Wachovia Securities took into consideration current market conditions and property

characteristics. The net asset value analysis produced an estimated per share value range of \$7.15 to \$10.50 for Crown.

Wachovia Securities also calculated the net asset value per share of PREIT. For this calculation, Wachovia Securities applied a range of capitalization rates from 9.00% to 10.0% to PREIT's projected 2003 net operating income for the retail assets that it owned as of May 13, 2003. The resulting gross real estate value was added to the gross value of PREIT's other assets and the announced cost of the assets that it agreed to purchase from The Rouse Company less the outstanding debt of PREIT and PREIT's obligations pursuant to joint ventures, adjustments for debt (marked-to-market) and certain other liabilities, to arrive at an equity net asset value per share. Wachovia Securities assumed that the net proceeds from the sale of PREIT's multifamily properties were used to reduce PREIT's debt. In applying the range of capitalization rates, Wachovia Securities took into consideration current market conditions and property characteristics. The net asset value analysis produced an estimated per share value range of \$27.41 to \$31.69 for PREIT.

Based upon the high and low implied common share prices of Crown and PREIT calculated by Wachovia Securities in its analysis of net asset value, Wachovia Securities calculated the following implied exchange ratios in the proposed merger.

### **Crown Low Share Price to PREIT High Share Price**

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Crown Low: \$7.15	PREIT High: \$31.69
Implied Exchange Ratio:	.2256

### Crown High Share Price to PREIT Low Share Price

Crown High: \$10.50	PREIT Low: \$27.41
Implied Exchange Ratio:	.3831

Wachovia Securities noted that the exchange ratio of .3589 in the proposed merger is within this range of implied exchange ratios.

### *Discounted Cash Flow Analysis*

Wachovia Securities performed a discounted cash flow analysis by calculating the present value of cash available for distribution for 2003 through 2006 for Crown based on management projections. Wachovia Securities calculated the terminal values by applying terminal capitalization rates ranging from 9.50% to 10.50%. Wachovia Securities discounted the cash flows and the terminal values to present values based on discount rates ranging from 10.0% to 13.0%. The discounted cash flow analysis produced an estimated per share value range of \$8.19 to \$11.33 for Crown's common shares.

Wachovia Securities also performed a discounted cash flow analysis by calculating the present value of cash available for distribution for 2003 through 2006 for PREIT based on management projections for 2003 and by applying certain growth rates to PREIT's cash available for distribution for 2004 through 2006. Wachovia Securities calculated the terminal values by applying terminal capitalization rates ranging from 9.00% to 10.00%. Wachovia Securities discounted the cash flows and the terminal values to present values based on discount rates ranging from 10.0% to 13.0%. The discounted cash flow analysis produced an estimated per share value range of \$25.21 to \$32.85 for PREIT's common shares.

Based upon the high and low implied common share prices of Crown and PREIT calculated by Wachovia Securities in its discounted cash flow analysis, Wachovia Securities calculated the following implied exchange ratios in the proposed merger.

62

---

### Crown Low Share Price to PREIT High Share Price

Crown Low: \$8.19	PREIT High: \$32.85
Implied Exchange Ratio:	.2493

### Crown High Share Price to PREIT Low Share Price

Crown High: \$11.33	PREIT Low: \$25.21
Implied Exchange Ratio:	.4494

Wachovia Securities noted that the exchange ratio of .3589 in the proposed merger is within this range of implied exchange ratios.

### *General*

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Wachovia Securities considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Wachovia Securities believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion.

In performing its analyses, Wachovia Securities made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond Crown's control. No company, transaction or business used in the analyses described above is identical to Crown or the proposed merger. Any estimates contained in Wachovia Securities' analysis are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by these estimates. The analyses performed were prepared solely as a part of Wachovia Securities' analysis of the fairness, from a financial point of view, as of the date of the opinion and subject to and based on the assumptions made, procedures followed, matters considered and limitations of the review undertaken, in its opinion, to the holders of Crown common shares of the consideration to be received by such holders pursuant to the terms of the merger agreement and were conducted in connection with the delivery by Wachovia Securities of its opinion dated May 13, 2003 to Crown's board of trustees. Wachovia Securities' analyses do not purport to be appraisals or to reflect the prices at which shares of Crown common shares might actually trade. The consideration to be paid to holders of Crown common shares in the merger agreement was determined through



negotiations between Crown, PREIT, members of their respective senior management teams and respective advisors, and was approved by Crown's board of trustees. Wachovia Securities did not recommend any specific consideration to Crown or that any given consideration constituted the only appropriate consideration for the merger.

Wachovia Securities' opinion was one of the many factors taken into consideration by Crown's board of trustees in making its determination to approve the merger. Wachovia Securities' analyses summarized above should not be viewed as determinative of the opinion of Crown's board of trustees with respect to Crown's value or of whether the board would have been willing to agree to a different form of consideration.

Wachovia Securities is a nationally recognized investment banking and advisory firm and a subsidiary of Wachovia Corporation. Wachovia Securities, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other

purposes. Wachovia Securities and its affiliates (including Wachovia Corporation and its affiliates) may maintain relationships with Crown or PREIT, as well as any of their principals or affiliates. Additionally, in the ordinary course of its business, Wachovia Securities may trade in the securities of Crown and PREIT for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. In the past, Wachovia Securities and its affiliates have provided financial advisory and financing services to Crown and PREIT and certain of their affiliates, and has received customary fees for the rendering of these services.

During the past two years, Wachovia Securities and its affiliates have participated as lenders in PREIT's revolving credit facility as well as financing facilities for PREIT and its affiliates. Wachovia Securities and its affiliates have received customary fees and interest payments on the loans of which all or a substantial portion were paid to Wachovia Bank, National Association in its capacity as lender.

Crown has paid Wachovia Securities a fee of \$300,000, which represented a non-refundable cash fee paid to Wachovia Securities upon the delivery of its fairness opinion to Crown's board of trustees. The full amount of this fee became fully earned and payable at the time Wachovia Securities rendered its fairness opinion, and no part of such fee was contingent upon the approval or consummation of the merger. Crown has also agreed to pay Wachovia Securities an additional fee of approximately \$4.0 million for its financial advisory services, which included financial and market-related advice in connection with the merger. The fee payable with respect to Wachovia Securities' financial advisory services is based on the total value of the PREIT common shares and PREIT 11% preferred shares to be issued to holders of Crown common shares and Crown 11% preferred shares in the merger (valued at the higher of the fair market value on the closing date or the date the merger was announced) and the amount of Crown debt outstanding as of the closing, and is contingent on the consummation of the merger. Crown has also agreed to reimburse Wachovia Securities for its expenses incurred in performing its services and to indemnify Wachovia Securities and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Wachovia Securities or any of its affiliates against certain liabilities and expenses, including certain liabilities under federal securities laws, related to or arising out of Wachovia Securities' engagement and any related transactions.

#### **Trustees and Executive Officers of PREIT After the Merger**

Following the merger, the nine current trustees of PREIT (assuming the election of Mr. Roberts at the PREIT special meeting) will remain as trustees of the combined entity. In addition, following the merger PREIT will expand its board of trustees by one class A member and one class B member and Mark E. Pasquerilla will be appointed to fill the vacant class A board seat and Donald F. Mazziotti will be appointed to fill the class B board seat. Messrs. Pasquerilla and Mazziotti will be appointed at the first regular meeting of PREIT's board of trustees following the effective time of the merger. Messrs. Pasquerilla and Mazziotti will be required to stand for reelection at the first PREIT shareholders meeting following their becoming trustees and at such time PREIT will include and recommend each of them in the management slate of nominees. If they are so reelected, then they will continue to serve for the remaining term of their respective class, which is until the 2005 annual meeting of shareholders for class A trustees and until the 2006 annual meeting of shareholders for class B trustees.

Thereafter, PREIT has agreed to include Mr. Pasquerilla in the management slate of nominees for class A trustees until the earlier of (1) the date on which Mr. Pasquerilla and certain entities controlled by Mr. Pasquerilla and their affiliates beneficially owns less than 70% of the aggregate number, as adjusted, of PREIT common shares and Class B PREIT Partnership Units issued to them pursuant to the merger and other transactions contemplated in the merger agreement or (2) the date, after the 8<sup>th</sup> anniversary of the merger, on which such group beneficially owns in the aggregate less than 7.5% of the total outstanding PREIT common shares on a fully diluted basis.

Following the merger, the current executive officers of PREIT will remain as executive officers of PREIT. It is not currently anticipated that any current executive officers of Crown will become executive officers of PREIT following the merger.

**Interests of Trustees and Executive Officers of Crown and PREIT in the Merger**

In considering the recommendation of the Crown board with respect to the merger, Crown shareholders should be aware that, as described below, some Crown trustees and executive officers have interests in the merger that differ from, or are in addition to, the interests of Crown shareholders generally.

**Trustees of PREIT After the Merger.** Following the merger, the nine current trustees of PREIT (assuming the election of Mr. Roberts at the PREIT special meeting) will remain as trustees of the combined company. In addition, Messrs. Pasquerilla and Mazzotti will become trustees of the combined company. See " Trustees and Executive Officers of PREIT After the Merger" on page 64.

**Indemnification and Insurance.** The merger agreement provides that PREIT and PREIT Partnership will provide exculpation and indemnification for each person who has been at any time on or before May 13, 2003, or who becomes before the completion of the merger, an officer, director or trustee of Crown or any Crown subsidiary which is the same as the exculpation and indemnification provided by Crown and Crown Partnership immediately before completion of the merger, with specified limited exceptions. In addition, PREIT and PREIT Partnership will indemnify and hold harmless those persons against any losses, claims, liabilities, expenses, judgments, fines and amounts paid in settlement arising out of the fact that the person is or was an officer, employee, director or trustee of Crown or any of Crown's subsidiaries or out of the merger agreement or the transactions contemplated by the merger agreement to the fullest extent permitted by law. Further, PREIT has agreed to purchase directors' and officers' liability insurance coverage for the benefit of those individuals currently covered by Crown's insurance for a period of six years following the merger. For a more complete discussion of these provisions of the merger agreement, see "The Merger Agreement Indemnification; Directors' and Officers' Insurance" beginning on page 101.

**Equity-Based Awards.**

**Crown Trustees.** As of September 1, 2003, one of the four Crown trustees who are not employees of Crown holds an aggregate of 30,000 options to purchase Crown common shares with a weighted average exercise price of \$7.58 per share. As of the effective time of the merger, all of these options automatically will be converted into options to purchase a number of PREIT common shares equal to the number of Crown options multiplied by the exchange ratio of 0.3589, with an exercise price equal to the exercise price of the Crown options divided by 0.3589. All of these options already are vested according to their terms, and the substituted PREIT options will remain exercisable until the earlier of six months after the effective time of the merger or the expiration date of the original Crown options. The expiration date will be determined without regard to the trustee's resignation or termination of service.

**Crown Executive Officers.** The eight Crown executive officers, of whom Messrs. Stevens, Zucco and Pasquerilla also are Crown trustees, are employed by Crown Partnership and as of September 1, 2003 seven of these officers hold vested options to purchase an aggregate of 552,000 Crown Partnership Units with a weighed average exercise price of \$7.60 per unit, and unvested options to purchase an aggregate of 171,000 Crown Partnership Units with a weighted average exercise price of \$5.73 per unit.

Mark E. Pasquerilla never participated in Crown's option plan and holds no options. The following table sets forth information about options held by the eight Crown executive officers as of September 1, 2003:

Name	Units Subject to Vested Options	Units Subject to Unvested Options	Total Units Subject to Options	Average Per Unit Exercise Price of Total Units Subject to Options
Mark E. Pasquerilla				N/A
Terry L. Stevens	122,000	53,000	175,000	\$ 7.15
Donato B. Zucco	76,000	39,000	115,000	\$ 6.74
Thomas Stephenson	144,000	21,000	165,000	\$ 7.44
Nicholas O. Antonazzo	134,000	21,000	155,000	\$ 7.42
Robert J. Griffith	70,000	15,000	85,000	\$ 7.25

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Name	Units Subject to Vested Options	Units Subject to Unvested Options	Total Units Subject to Options	Average Per Unit Exercise Price of Total Units Subject to Options
Ronald P. Rusinak		13,000	13,000	\$ 5.61
John A. Washko	6,000	9,000	15,000	\$ 5.44
	552,000	171,000	723,000	\$ 7.16

As of the effective time of the merger, all of these options automatically will be converted into options to purchase a number of PREIT common shares equal to the number of Crown Partnership options multiplied by the exchange ratio of 0.3589, at an exercise price equal to the exercise price of the Crown Partnership options divided by 0.3589, and will be treated as follows:

if the Crown executive officer is hired by PREIT and remains an employee of PREIT on the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the Crown executive officer's unvested options will vest on that date. These options, together with the Crown executive officer's previously vested options, will remain exercisable according to their terms as if the Crown executive officer's employment with Crown Partnership had not terminated;

if the Crown executive officer is hired by PREIT but his employment is terminated by PREIT other than for cause before the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the Crown executive officer's unvested options will vest on the date of termination. These options will remain exercisable until the earlier of six months after the termination or the original expiration date of the option, and the Crown executive officer's previously vested options will remain exercisable for the period following such termination provided for by the original terms of the options; or

if the Crown executive officer is not offered employment with PREIT or is offered employment by PREIT at a location that is more than 25 miles from his position with Crown Partnership or conditioned upon a material reduction in pay and the Crown executive officer does not accept such offer, then the Crown executive officer's unvested options will vest at the effective time of the merger. These options, together with his previously vested options, will remain exercisable until the earlier of six months after the effective time of the merger or the original expiration date of the options. The expiration date will be determined without regard to the executive officer's termination of employment.

**Employment Continuation Agreements.** Crown Partnership has entered into "employment continuation agreements" with Crown executive officers that provide for severance benefits under specified circumstances in the event of a change of control or a potential change of control. A change of control under each of the employment continuation agreements means:

any person becomes the owner of Crown Partnership securities possessing 30% or more of the voting power of Crown Partnership;

the completion of a tender offer of Crown Partnership securities entitling the holders thereof to 30% or more of the voting power of Crown Partnership;

a change in 50% or more of the members of any class of the board is made by other than Crown Partnership or less than 51% of the board members are (1) individuals who were board members immediately prior to the change of control, or (2) individuals whose election or nomination for election was approved by a vote of at least two-thirds of the board members then in office who either were board members immediately prior to the change of control or whose election or nomination for election was previously so approved; or

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

the occurrence of a merger, consolidation, share exchange, division, sale or other disposition of assets following which the Crown Partnership shareholders immediately prior to the transaction cease to hold a majority of the voting power of the surviving entity, or, if an asset sale, of each surviving company which immediately following the transaction holds more than 30% of the consolidated assets of Crown Partnership.

A potential change of control under each of the employment continuation agreements occurs if:

any person commences a tender offer for securities representing at least 30% of the voting power of Crown Partnership or announces or otherwise makes known the intent to commence such a tender offer;

Crown Partnership enters into an agreement which, if consummated, would constitute a change of control; or

a proxy solicitation is commenced by other than Crown Partnership for the election of Crown Partnership board members that, if successful, would effect a change of control.

If an executive officer subject to an employment continuation agreement is terminated without cause or terminates for good reason within 36 months, or 24 months in certain cases, following a change of control, or if the executive officer is terminated without cause or terminates for good reason following a potential change of control and a change of control occurs within six months of termination, Crown Partnership will make a lump sum payment of the following amount, which we refer to as the Severance Amount, to the executive officer:

the executive officer's earned but unpaid base salary; and

three times, in the case of Messrs. Pasquerilla, Stevens and Zucco, and two times in the case of Messrs. Antonazzo, Stephenson, Griffith, Rusinak and Washko, the sum of (a) the executive officer's annual rate of base salary in effect at the time of his termination, and (b) the average of the bonuses payable to the executive officer for the three fiscal years (two fiscal years in the case of Mr. Griffith) preceding the date of termination.

Crown Partnership will also pay the executive officer any vested amounts or benefits owed to the executive officer under Crown Partnership's employee benefit plans, including any compensation previously deferred and not yet paid and any accrued but unpaid vacation pay, which we refer to as Accrued Obligations. The Accrued Obligations will be paid in accordance with the terms of the applicable employee benefit plan.

In addition, each employment continuation agreement provides that the executive officer and his eligible dependents will continue to be eligible to participate in Crown Partnership's welfare and fringe benefit plans on the same terms and conditions that would have applied had the executive officer's employment not terminated. If such participation is prohibited, Crown Partnership will provide comparable benefits under another plan or from its general assets. Coverage will continue until the earlier of (a) the date the executive officer becomes eligible for comparable benefits under a similar plan or program of a subsequent employer, and (b)(1) the 36-month anniversary of the date of

67

---

termination in the case of Messrs. Pasquerilla, Stevens and Zucco, and (2) the 24-month anniversary of the date of termination in the case of Messrs. Antonazzo, Stephenson, Griffith, Rusinak and Washko.

Crown Partnership may terminate the employment of an executive officer for cause if he is convicted of a felony, if he commits an act of dishonesty or gross misconduct that results or is intended to result in material damage to Crown Partnership's business or reputation, or if he willfully and continually fails to substantially perform his duties after a written demand for substantial performance is delivered. Following a change of control or a potential change of control, an executive officer may terminate his employment for good reason if any of the following occurs without the executive officer's written consent:

the assignment of duties to the executive officer inconsistent in any material adverse respect with respect to the executive officer's position, authority, responsibilities or status, any other material adverse change in his position, authority,

responsibilities or status, or any removal or failure to re-elect the executive officer to any position;

Crown Partnership's failure to comply with the compensation and employee benefit provisions of the employment continuation agreement;

the purported termination of employment of the executive officer which is not due to his disability, death, retirement, or voluntary termination without good reason, or is not for cause;

the required relocation of the executive officer to an office by more than 35 miles or the required travel on company business to a substantially greater extent than required immediately prior to the change of control; and

Crown Partnership's failure to obtain assumption of the executive officer's employment continuation agreement by any successor to Crown Partnership.

If any amount or benefit paid to an executive officer under his employment continuation agreement or otherwise would result in an excise tax imposed by Section 4999 of the Internal Revenue Code, and if the executive officer would receive a greater net after-tax amount if the total amount payable to him were reduced by the amount necessary to avoid triggering the excise tax, then the amount payable to the executive officer under the employment continuation agreement will be reduced by the amount necessary to avoid triggering the excise tax. Neither Crown nor PREIT has made a final determination that any reduction to payments will be required to avoid imposition of the excise tax under Section 4999 of the Internal Revenue Code.

PREIT has agreed that (1) the signing of the merger agreement with Crown is a potential change of control as defined in the employment continuation agreements, (2) the consummation of the transactions contemplated under the merger agreement with Crown will constitute a change of control as defined in the employment continuation agreements, (3) the termination of employment of an employee covered by an employment continuation agreement will be a termination other than for cause, (4) the resignation of employment by an employee covered by an employment continuation agreement will be a termination with good reason, (5) such employees will be entitled to a Severance Amount and the continuation of benefits as provided in their respective employment continuation agreements, and (6) Severance Amounts will be paid by PREIT within ten business days of the closing date of the merger and employee benefits will be continued by PREIT for the time periods specified in the employment continuation agreements.

Under Mr. Pasquerilla's employment continuation agreement, Mr. Pasquerilla will be eligible to receive an estimated cash payment of approximately \$1.121 million as his Severance Amount. Under Mr. Stevens' employment continuation agreement, Mr. Stevens will be eligible to receive an estimated cash payment of approximately \$1.026 million as his Severance Amount. Under Mr. Zucco's employment continuation agreement, Mr. Zucco will be eligible to receive an estimated cash payment

of approximately \$659,000 as his Severance Amount. Messrs. Antonazzo, Stephenson, Griffith, Rusinak and Washko also will be eligible to receive cash payments under their respective employment continuation agreements of approximately \$477,000, \$657,000, \$364,000, \$340,000 and \$343,000, respectively, as their Severance Amounts. The calculation of the estimated cash payments under the employment continuation agreements assumes that PREIT's obligations under the agreements are triggered immediately upon the closing of the merger and that the merger will close on November 13, 2003. Mr. Griffith's employment continuation agreement differs from the employment continuation agreements entered into with other executive officers in that references in the definition of change of control and certain other provisions are to "Crown" rather than "Crown Partnership".

*Arrangements with Mark E. Pasquerilla and Affiliates.* PREIT has entered into, or will enter into in connection with the merger, various arrangements with Mark E. Pasquerilla and certain of his affiliates, including a tax protection agreement, a shareholders agreement, a registration rights agreement, an indemnification agreement, a non-competition agreement and a standstill agreement. See "Agreements with Mark E. Pasquerilla and Affiliates" beginning on page 109.

*Arrangements with Edward A. Glickman.* In considering the recommendation of the PREIT board with respect to the merger, PREIT shareholders should be aware that, as described below, Edward A. Glickman, executive vice president and chief financial officer of PREIT, may have interests in the merger that are in addition to the interests of PREIT shareholders generally. Mr. Glickman holds 5,000 restricted shares, 10,000 dividend equivalent rights and 20,000 options to purchase PREIT common shares scheduled to vest on January 1, 2004 which will

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

automatically vest immediately upon the merger. In addition, under the terms of Mr. Glickman's employment agreement, Mr. Glickman is entitled to terminate his employment with PREIT for good reason as a result of the merger, entitling him, among other things, to a payment of three times the sum of his current salary plus the average of his annual bonus over the last three years if he is not offered a new three year employment agreement following the merger providing for the same title and responsibilities and the same or greater compensation and benefits as in effect immediately before the change of control.

### **Listing of New PREIT Common Shares and 11% Preferred Shares**

It is a condition to the merger that the PREIT common shares, the PREIT 11% preferred shares and the PREIT common shares underlying the Class A PREIT Partnership Units and the Class B PREIT Partnership Units to be issued in the merger and the other transactions contemplated in the merger agreement be approved for listing on the New York Stock Exchange.

### **The Pre-Merger Distribution**

Prior to the merger, Crown Partnership will, subject to the satisfaction of specified conditions, convey to Crown Investments Trust the property located in Johnstown, Pennsylvania known as Pasquerilla Plaza in exchange for the conveyance by Crown Investments Trust of unimproved out-parcels adjacent to three shopping malls owned by Crown to Crown Partnership pursuant to an agreement of exchange dated as of May 13, 2003 between Crown Partnership and Crown Investments Trust. Immediately thereafter, Crown Partnership will, subject to the satisfaction of specified conditions, distribute to Crown, in complete liquidation of all of Crown's partnership interests in Crown Partnership, Crown's proportionate interest in all of Crown Partnership's assets and substantially all of Crown Partnership's liabilities and Crown will cease to be a partner in Crown Partnership, pursuant to a distribution agreement dated May 13, 2003 entered into between Crown and Crown Partnership in connection with the execution of the merger agreement. See "The Distribution Agreement" beginning on page 103. *The distribution agreement is attached to this joint proxy statement/prospectus as Annex E. Please refer to the distribution agreement for a complete description of the transactions described above.*

69

---

### **The Crown Partnership Contribution**

Immediately following the effective time of the merger, Crown Partnership will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership all of the assets held by Crown Partnership immediately following the merger, which will consist of those assets not distributed to Crown pursuant to the distribution agreement, and which will exclude a portion of Crown Partnership's interest in two partnerships that own 14 shopping malls, and PREIT Partnership will assume substantially all of Crown Partnership's liabilities and will issue to Crown Partnership PREIT Partnership Units, pursuant to the terms of a contribution agreement dated May 13, 2003 entered into between Crown Partnership and PREIT Partnership in connection with the execution of the merger agreement. See "The Contribution Agreements" beginning on page 104. *The Crown Partnership contribution agreement is attached to this joint proxy statement/prospectus as Annex E. Please refer to the Crown Partnership contribution agreement for a complete description of the transactions described above.*

### **The PREIT Contribution**

Immediately following the effective time of the merger, PREIT will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership substantially all of the assets of Crown Partnership distributed to Crown pursuant to the distribution agreement and acquired by PREIT from Crown in the merger, and PREIT Partnership will assume all of the liabilities of Crown Partnership assumed by Crown pursuant to the distribution agreement and transferred to PREIT in the merger and will issue PREIT Partnership Units to PREIT, pursuant to the terms of a contribution agreement dated May 13, 2003 entered into between PREIT and PREIT Partnership in connection with the execution of the merger agreement. See "The Contribution Agreements" beginning on page 104. *The PREIT contribution agreement is attached to this joint proxy statement/prospectus as Annex G. Please refer to the PREIT contribution agreement for a complete description of the transactions described above.*

### **Palmer Park Mall Venture Arrangements**

Prior to May 13, 2003, PR Palmer Park, L.P., a wholly owned subsidiary of PREIT Partnership, and Crown Partnership were equal joint venture partners in Palmer Park Mall Venture, a joint venture which holds title in fee to the Palmer Park Mall, a property located in Easton, Pennsylvania containing an aggregate of approximately 447,397 square feet. In connection with the merger and the related transactions, PR Palmer Park, L.P. contributed an additional \$33,022 in cash to the capital of Palmer Park Mall Venture, thereby increasing its interest in Palmer Park Mall Venture to 50.1% and reducing Crown Partnership's interest in the Palmer Park Mall Venture to 49.9%, and PR Palmer Park, L.P. and

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Crown Partnership entered into an amendment to the Palmer Park Mall Venture partnership agreement to reflect the contribution.

### Accounting Treatment

PREIT will treat the merger as a purchase for financial accounting purposes. This means that PREIT will record the assets acquired and the liabilities assumed at their estimated fair values at the time the merger is completed.

### Regulatory Matters

No material federal or state regulatory requirements must be complied with or approvals must be obtained by PREIT, PREIT Partnership, Crown or Crown Partnership in connection with the merger.

### No Dissenters' Rights

Crown was organized under Maryland law. Under the Maryland General Corporation Law, because Crown common shares and Crown 11% preferred shares were listed on a national securities

70

---

exchange on the record date for the Crown special meeting, Crown common and preferred shareholders have no rights to dissent and receive an appraised value of their shares in the merger.

PREIT was organized under Pennsylvania law. Under Pennsylvania law, PREIT common shareholders have no rights to dissent and receive an appraised value of their common shares in the merger.

### Resale of New PREIT Common Shares and 11% Preferred Shares

The PREIT common shares and PREIT 11% preferred shares to be issued to Crown shareholders in the merger will be freely transferable under the Securities Act, except for shares issued to any person who may be deemed to be an "affiliate" of Crown within the meaning of Rule 145 under the Securities Act or who will become an "affiliate" of PREIT within the meaning of Rule 144 under the Securities Act after the merger. PREIT common shares received by persons who are deemed to be Crown affiliates or who become PREIT affiliates may be resold by these persons only in transactions permitted by the limited resale provisions of Rule 145 or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of Crown generally include individuals or entities that, directly or indirectly through one or more intermediaries, control, are controlled by or are under common control with Crown and may include officers, trustees and principal shareholders of Crown. All Crown shareholders who may be deemed to be affiliates of Crown will be so advised before the completion of the merger.

Persons who are not affiliates of Crown and who do not become affiliates of PREIT generally may sell their PREIT common shares or PREIT 11% preferred shares without restrictions.

71

---

## THE MERGER AGREEMENT

### The Merger Agreement

*The following is a summary of the material terms of the merger agreement and is qualified in its entirety by reference to the merger agreement, which is attached at the back of this joint proxy statement/prospectus as Annex A. You should read the merger agreement because it is the legal document that governs the merger.*

### The Merger

When the merger occurs, Crown will merge with and into PREIT, with PREIT surviving as a Pennsylvania business trust.

**Closing; Effective Time of the Merger**

The completion of the merger will occur no later than the third business day after the satisfaction or waiver of the conditions under the merger agreement or at another date as may be agreed in writing the parties to the merger agreement. If the merger agreement and the merger are approved at the special meetings, PREIT and Crown currently expect to complete the merger promptly following receipt of shareholder approval.

As soon as practicable after all conditions to the completion of the merger are satisfied, PREIT and Crown will execute and file articles of merger with the Department of State of Pennsylvania and with the State Department of Assessments and Taxation of Maryland. The merger will become effective upon the later of the filing of the articles of merger with the Department of State of Pennsylvania or the filing of the articles of merger with the State Department of Assessments and Taxation of Maryland.

**Merger Consideration**

In the merger:

holders of Crown common shares will receive, for each Crown common share issued and outstanding immediately before the merger, 0.3589 PREIT common shares; and

holders of Crown 11% preferred shares will receive, for each Crown 11% preferred share issued and outstanding immediately before the merger, one PREIT 11% preferred share.

The PREIT 11% preferred shares issued in the merger will have preferences and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption identical in all material respects to those of the Crown 11% preferred shares and shall include the right to receive all accrued and unpaid dividends on each issued and outstanding Crown 11% preferred share through the effective time of the merger.

Holders of Crown common shares will not receive certificates or scrip representing fractional PREIT common shares. Instead, each holder of Crown common shares otherwise entitled to a fractional share interest in PREIT will be paid an amount in cash, without interest, rounded to the nearest cent, determined by multiplying:

the average closing price of a PREIT common share on the NYSE on the five trading days immediately preceding the closing date of the merger by

the fraction of a PREIT common share which the holder of Crown common shares would otherwise be entitled to receive.

Upon conversion of the outstanding Crown common shares and Crown 11% preferred shares into the merger consideration, the Crown common shares and Crown 11% preferred shares will be automatically cancelled and retired and will cease to exist.

Because the exchange ratio is fixed at 0.3589, the market value of any PREIT common shares Crown shareholders will receive in the merger may differ from the market value of the PREIT common shares if the merger occurred today. On September 30, 2003, the most recent date practicable for obtaining pricing information for PREIT common shares prior to mailing this joint proxy statement/prospectus, the closing price of PREIT common shares was \$33.45 per share, which, based on the 0.3589 exchange ratio, would equal a market value equivalent per Crown common share of \$12.01 had the merger been completed on that date.

**Surrender of Crown Certificates**

PREIT will appoint American Stock Transfer & Trust Company to act as exchange agent for the purpose of paying the merger consideration. PREIT will make available to the exchange agent, on or before the effective time of the merger, the securities certificates for that purpose, together with any cash required to make payments in lieu of any fractional shares.



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

PREIT and PREIT Partnership will use commercially reasonable efforts to cause the exchange agent within five business days after the closing of the merger to send to each holder of Crown common shares or Crown 11% preferred shares, a letter of transmittal for use in the exchange and instructions explaining how to surrender certificates to the exchange agent. Holders of Crown common shares or Crown 11% preferred shares whose shares are converted into the right to receive the merger consideration and who surrender their certificates to the exchange agent, together with a properly completed and signed letter of transmittal and such other documents as may be reasonably requested by the exchange agent, as the case may be, will receive the merger consideration within five business days after the receipt by the exchange agent of their certificate(s) and their surrendered certificate(s) will be canceled.

Holders of unexchanged Crown common shares or Crown 11% preferred shares will not be entitled to receive any dividends, interest payments or other distributions payable by PREIT on the PREIT common shares or PREIT 11% preferred shares until surrender of their common or 11% preferred shares. Upon surrender, those holders will receive accumulated dividends and distributions, without interest, payable on PREIT common shares or PREIT 11% preferred shares, as applicable, after and in respect of a record date following the closing of the merger, together with cash instead of fractional shares.

### **Treatment of Crown Options**

#### ***Crown Trustee Options***

Each option outstanding under Crown's 1993 Trustees' Option Plan immediately before the effective time of the merger, determined without regard to the termination or resignation of service by any optionee, will automatically be converted upon the completion of the merger into an option to purchase PREIT common shares. The substituted PREIT option will permit its holder to purchase a number of PREIT common shares equal to the number of Crown common shares that could have been purchased under the corresponding Crown option, multiplied by 0.3589 (rounded down to the nearest whole number of shares). The exercise price per PREIT common share of the substituted option will be equal to the per-share option exercise price specified in the Crown stock option divided by 0.3589 (rounded up to the nearest whole cent).

Each substituted option will otherwise be subject to the same terms and conditions as the corresponding Crown option, except that each substituted option will, regardless of its terms, remain

73

---

exercisable, notwithstanding that the trustee may no longer be a member of the board of trustees, until the earlier of (i) six months from the effective time of the merger or (ii) the expiration date of the option as in effect immediately prior to the effective time of the merger.

#### ***Crown Partnership Options***

Each option to acquire Crown Partnership Units outstanding under Crown Partnership's 1993 Crown American Realty Option Plan immediately before the effective time of the merger, determined without regard to the termination or resignation of services by any optionee, will be automatically converted upon the completion of the merger into an option to purchase PREIT common shares. The substituted PREIT option will permit its holder to purchase a number of PREIT common shares equal to the number of Crown Partnership Units that could have been purchased (assuming full vesting) under the corresponding Crown Partnership option, multiplied by 0.3589 (rounded down to the nearest whole number of shares). The exercise price per PREIT common share of the substituted option will be equal to the per-share option exercise price specified in the Crown Partnership option divided by 0.3589 (rounded up to the nearest whole cent).

Each substituted option will otherwise be subject to the same terms and conditions as the corresponding Crown option, except that

if the holder of the option is hired by PREIT and remains an employee of PREIT on the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the holder's unvested options will vest on that date. These options, together with the holder's previously vested options, will remain exercisable according to their original terms as if the holder's employment with Crown Partnership had not terminated;

if the holder of the option is hired by PREIT but his employment is terminated by PREIT other than for cause before the later of March 31, 2004 or the last day of the first full calendar quarter that begins on or after the closing of the merger, then the holder's unvested options will vest on the date of termination. These options will remain exercisable until the earlier of six months after the date of termination or the original expiration date of the option, and the holder's previously vested options will remain exercisable for the period following such termination provided for by the original terms of the options;

or

if the holder of the option is not offered employment with PREIT or is offered employment by PREIT at a location that is more than 25 miles from his position with Crown Partnership or conditioned upon a material reduction in pay and the holder of the option does not accept the offer, then the holder's unvested options will vest at the effective time of the merger. These options, together with his previously vested options, will remain exercisable until the earlier of six months after the effective time of the merger or the original expiration date of the option. The expiration date will be determined without regard to the executive officer's termination of employment.

#### **Arrangements with Respect to Crown Employees**

##### ***Termination of Crown Partnership Employees***

Neither PREIT nor any PREIT subsidiary will be obligated to hire any employee of Crown Partnership or Crown American Services Corporation following the merger, but may make offers of employment to employees of Crown Partnership and Crown American Services Corporation as specified in the merger agreement.

Other than in the ordinary course of business and consistent with past practices, without the written consent of PREIT, Crown, Crown Partnership and Crown American Services Corporation will not terminate any employees, except that, effective immediately before the closing of the merger,

74

---

Crown Partnership and Crown American Services Corporation will terminate the employment of all of their employees other than those employees who have accepted an offer of employment with PREIT or any PREIT subsidiary (to be effective on the closing date of the merger).

##### ***Severance Payments***

At the closing of the merger, PREIT or a PREIT subsidiary will deposit with a third party escrow agent an amount mutually agreed by Crown and PREIT equal to a reasonable estimate of the aggregate severance payments that are required to be made to employees of Crown, Crown Partnership and Crown American Services Corporation under any Crown employee benefit plans and agreements as a result of the resignations and terminations of employment contemplated by the merger agreement. It is estimated that this amount will be approximately \$10 million. Within ten business days of the closing date of the merger, PREIT or a PREIT subsidiary will cause to be paid from the escrow deposit any such severance payments required to be made pursuant to any Crown employee benefit plans and agreements, less any required withholding.

#### **Board of Trustees of PREIT**

In connection with the merger, PREIT will expand its board of trustees by one class A member and one class B member. Mark E. Pasquerilla will be appointed to fill the vacant class A board seat and Donald F. Mazziotti will be appointed to fill the class B board seat. Messrs. Pasquerilla and Mazziotti will be required to stand for reelection at the first PREIT shareholders meeting following their becoming trustees and at such time PREIT will include and recommend both of them in the management slate of nominees. If they are so reelected, then they will continue to serve for the remaining term of their respective class, which is until the 2005 annual meeting of shareholders for class A trustees and until the 2006 annual meeting of shareholders for class B trustees.

Thereafter, PREIT will include Mr. Pasquerilla in the management slate of nominees for class A trustees until the earlier of (1) the date on which Mr. Pasquerilla and certain entities controlled by Mr. Pasquerilla and their affiliates beneficially owns less than 70% of the aggregate number, as adjusted, of PREIT common shares and Class B PREIT Partnership Units issued to them pursuant to the merger and other transactions contemplated in the merger agreement or (2) the date, after the 8<sup>th</sup> anniversary of the merger, on which such group beneficially owns in the aggregate less than 7.5% of the total outstanding PREIT common shares on a fully diluted basis.

#### **Representations and Warranties of PREIT and Crown**

The merger agreement contains customary representations and warranties by each of Crown, Crown Partnership, PREIT and PREIT Partnership relating to, among other things:

due organization and good standing of the parties and any subsidiaries;

capital structure;

ownership of any interests or investments;

authorization to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

execution, delivery, performance and enforceability of the merger agreement;

no breach or conflict with applicable laws, regulations, organizational documents, agreements and other existing obligations as a result of the merger agreement or the consummation of the merger, subject to certain exceptions;

required governmental consents;

75

---

reports, schedules, forms, statements and other documents filed with the Securities and Exchange Commission, or the SEC, and the accuracy of the information contained in each;

financial statements prepared in accordance with generally accepted accounting principles;

no material undisclosed liabilities;

absence of material adverse changes and corporate or other events such as dividends or other distributions, splits, combinations or reclassifications of outstanding securities, material change in accounting methods, and material amendments of employment or other agreements with officers and trustees, or with affiliates or immediately family members of officers and trustees;

no material legal proceedings;

real property, including title, absence of encumbrances, title insurance, permits, rent rolls, reciprocal operating agreements, absence of material default under any ground lease, and insurance coverage;

environmental matters;

related party transactions;

employee benefits and labor matters;

employee plans and employees;

tax matters, including qualification as a REIT;

payments to employees, officers, directors or trustees as a result of the merger, the other transactions contemplated in the merger agreement or a termination of service after the consummation of such transactions;

brokers', finders', financial advisor's or other similar fees and commissions;

compliance with laws;

contracts and debt instruments;

receipt of opinion of financial advisor;

exemption from anti-takeover statutes;

inapplicability of the Investment Company Act of 1940;

required shareholder and partner approvals; and

intellectual property.

In addition to the representations and warranties made by both PREIT and Crown, the merger agreement contains additional representations and warranties made by each of Crown and Crown Partnership relating to the inapplicability of the Crown rights plan to the merger and related transactions.

#### **Conduct of Business of Crown and Crown Partnership Pending the Merger**

Until the completion of the merger, each of Crown and Crown Partnership has agreed that, except as consented to in writing by PREIT or except as otherwise permitted by or required to meet its obligations under the merger agreement or any other agreement entered into in connection with the merger agreement, it will, and will cause its subsidiaries to, among other things:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as previously conducted;

76

---

use commercially reasonable efforts to preserve intact its business organizations and goodwill;

use commercially reasonable efforts, provided it does not require additional compensation, to keep available the services of its officers and employees;

include one or more representatives of PREIT at weekly Crown management meetings and confer with representatives of PREIT on any proposals to engage in material transactions or transactions in excess of 10% of certain applicable operating and capital expenditure budgets of the Crown property to which the proposal relates;

notify PREIT as soon as practicable of the occurrence or existence of any circumstance that would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of Crown and its subsidiaries taken as a whole or a material adverse effect on any of Crown's properties;

deliver to PREIT as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

maintain its books and records in accordance with generally accepted accounting principles consistently applied, and not change in any material manner any of its methods, principles or practices of accounting, except as required by the SEC, applicable law or generally accepted accounting principles, and in such case, Crown must notify PREIT of any such proposed change;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect Crown's qualification as a REIT under the Internal Revenue Code;

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide their current coverage or with other insurance companies that have equivalent or better financial ratings;

pay all real estate taxes when due in the ordinary course of business consistent with past practices; and

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices.

In addition, pending the merger, each of Crown and Crown Partnership has agreed that, except as consented to in writing by PREIT or except as otherwise permitted by or required to meet its obligations under the merger agreement or any other agreement entered into in connection with the merger agreement, it will not, and will cause its subsidiaries not to, among other things:

make or rescind any express or deemed election relative to taxes or change any of its methods of reporting income or deductions for federal income tax purposes unless required by law or necessary to preserve Crown's status as a REIT or the status of any subsidiary of Crown as a partnership for federal income tax purposes, as a qualified REIT subsidiary or as a taxable REIT subsidiary as defined under the Internal Revenue Code, as the case may be;

except if such commitment is included in a specified operating budget or the amount of the commitment does not exceed 10% of the aggregate capital expenditures in a specified capital expenditure budget,

acquire, enter into any option to acquire, or exercise an option or other right or election or enter into any other commitment or contractual obligation for the acquisition of any real property (other than the conveyance of certain out-parcels in exchange for Pasquerilla Plaza

---

as contemplated in the agreement of exchange described under the heading "The Agreement of Exchange" on page 102);

encumber any assets, commence construction of or enter into any commitment to develop or construct real estate projects, except in the ordinary course of its business; or

incur or enter into any commitment to incur additional debt, except for working capital under its revolving line(s) of credit and commitments for debt for specified purposes and not in excess of specified amounts;

acquire or agree to acquire any business or any corporation or other business organization or division thereof;

modify, amend or terminate, or enter into any commitment to modify, amend or terminate, any debt in existence on May 13, 2003;

amend its organizational documents, except as necessary to comply with any applicable laws, rules or regulations or NYSE rules or regulations after giving notice to PREIT of any such proposed amendment;

classify or re-classify any unissued shares;

issue, sell, pledge, dispose of, grant, transfer or authorize the foregoing, or make any change in the number of shares of beneficial interest, membership interests or units of limited partner interest issued and outstanding, except in specified instances;

except as required under the Crown 1993 Trustees' Option Plan, grant options or any other rights or commitment relating to its shares of beneficial interest, membership interests or units of limited partner interest, or any security convertible into its shares of capital stock, membership interests or units of limited partner interest, or any security the value of which is measured by shares of beneficial interest, or any security subordinated to the claim of its general creditors, except in specified instances;

amend or waive any rights under any options or other stock rights, except in specified instances;

authorize, declare, set aside or pay any dividend or make any other distribution or payment with respect to the Crown common shares or Crown 11% preferred shares or the common or preferred units of limited partner interest in Crown Partnership, other than certain specified regular and final dividends on the Crown common shares and Crown 11% preferred shares and other than deemed transfers of excess shares as necessary to maintain Crown's REIT status and redemptions of Crown Partnership Units under the partnership agreement of Crown Partnership where solely Crown common shares are used, except in specified instances;

directly or indirectly redeem, purchase or otherwise acquire any shares, membership interests or units of partnership interest or any option, warrant or right to acquire, or security convertible into, shares of beneficial interest, membership interests or units of partnership interest of Crown or Crown Partnership, other than deemed transfers of excess shares as necessary to maintain Crown's REIT status and redemptions of Crown Partnership Units under the partnership agreement of Crown Partnership where solely Crown common shares are used, except in specified instances;

sell, mortgage, voluntarily subject to lien or otherwise dispose of any Crown property, except in specified instances;

enter into, modify, amend, supplement, renew or extend the terms of a lease or other right to use or occupy space having a term of one year or more or regarding 5,000 square feet or more, except in specified instances;

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

sell, lease, mortgage, subject to lien or otherwise dispose of any personal property or intangible property, except with respect to the Pasquerilla Plaza or in the ordinary course of business and not material, individually or in the aggregate;

make, arrange or materially modify any personal loans in violation of Section 402 of the Sarbanes-Oxley Act of 2002;

make any other loans, advances or capital contributions to, or investments in, any other person, except in specified instances;

pay, discharge or satisfy any claims, liabilities or obligations whether absolute, accrued, asserted or unasserted, contingent or otherwise, except in specified instances;

guarantee the debt of another person, other than certain specified debt of the subsidiaries of Crown, enter into any "keep well" or other agreement to maintain any financial condition of another person or enter into any arrangement having the same economic effect;

enter into any commitment with any officer, director, trustee or affiliate of Crown, any of its subsidiaries, or any commitment with any consultant;

other than annual merit compensation increases for non-executive employees consistent with past practice and payments for compensation to employees located outside of Crown's principal executive office not to exceed in the aggregate \$50,000, increase any compensation or enter into or amend any employment, severance, employment continuation or other arrangement with any of its officers, directors, trustees or employees, other than as expressly required by any contract or plan;

adopt any new employee benefit plan or amend any existing plans or rights or grant any new, or modify any existing severance or term arrangement;

settle any stockholder derivative or class action claims arising out of or in connection with any of the transactions contemplated by the merger agreement or any other litigation except solely for cash payments paid by any insurer or person other than Crown or its subsidiaries plus an amount paid by Crown or any of its subsidiaries not exceeding \$250,000 in the aggregate;

change the ownership of any of its subsidiaries, except in specified instances;

accept a promissory note in payment of the exercise price payable under any option to purchase Crown common shares;

enter into any oral or written "tax protection agreement" that:

has as one of its purposes to permit a person to take the position that such person could defer federal taxable income that otherwise might have been recognized upon a transfer of property to Crown Partnership or any other Crown subsidiary that is treated as a partnership for federal income tax purpose, and that:

prohibits or restricts in any manner the disposition of any assets of Crown or any Crown subsidiary;

requires that Crown or any Crown subsidiary maintain, put in place, or replace debt, whether or not secured by one or more of Crown's properties; or

requires that Crown or any Crown subsidiary offer to any person at any time the opportunity to guarantee or otherwise assume, directly or indirectly, including through a "deficit restoration obligation" guarantee, indemnification agreement or other similar arrangement, the risk of loss for federal income tax purposes for debt or other liabilities of Crown or any Crown subsidiary;

79

---

specifies or relates to a method of taking into account book-tax disparities under Section 704(c) of the Internal Revenue Code with respect to one or more assets of Crown or a Crown subsidiary; or

requires a particular method for allocating one or more liabilities of Crown or any Crown subsidiary under Section 752 of the Internal Revenue Code;

settle or compromise any material federal, state, local or foreign tax liability;

except in certain specified instances, modify, amend or supplement any agreement evidencing debt or cause or allow an event of default to occur with respect to any debt;

modify, amend or supplement any management agreement or other contracts providing, in each case, for payments thereunder of \$100,000 or more;

publicly recommend, propose or announce an intention to do any of the foregoing prohibited actions, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions; and

make, with regard to any taxable year since its formation, any election under Section 754 of the Internal Revenue Code.

#### **Conduct of Business of PREIT and PREIT Partnership Pending the Merger**

Until the completion of the merger, each of PREIT and PREIT Partnership has agreed that, except as consented to in writing by Crown or except as otherwise permitted by or required to meet its obligations under the merger agreement or any other agreement entered into in connection with the merger agreement, it will, and will cause its subsidiaries to, among other things:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as previously conducted;

use commercially reasonable efforts to preserve intact its business organizations and goodwill;

use commercially reasonable efforts, provided it does not require additional compensation, to keep available the services of its officers and employees;

confer at least weekly with one or more representatives of Crown to report operational matters of materiality and any proposals to engage in material transactions;

notify Crown as soon as practicable of the occurrence or existence of any circumstance that would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of PREIT and its subsidiaries taken as a whole or a material adverse effect on any of the PREIT properties;



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

deliver to Crown as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

maintain its books and records in accordance with generally accepted accounting principles consistently applied, and not change in any material manner any of its methods, principles or practices of accounting, except as required by the SEC, applicable law or generally accepted accounting principles, and in such case, PREIT must notify Crown of any such proposed change;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect PREIT's qualification as a REIT under the Internal Revenue Code;

80

---

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide their current coverage or with other insurance companies that have equivalent or better financial ratings;

pay all real estate taxes when due in the ordinary course of business consistent with past practices; and

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices.

In addition, pending the merger, each of PREIT and PREIT Partnership has agreed that, except as consented to in writing by Crown or except as otherwise permitted by or required to meet its obligations under the merger agreement or any other agreement entered into in connection with the merger agreement, it will not, and will cause its subsidiaries not to, among other things:

make or rescind any express or deemed election relative to taxes or change any of its methods of reporting income or deductions for federal income tax purposes unless required by law or necessary to preserve PREIT's status as a REIT or the status of any subsidiary of PREIT as a partnership for federal income tax purposes, as a qualified REIT subsidiary or as a taxable REIT subsidiary as defined under the Internal Revenue Code, as the case may be;

acquire, enter into any option to acquire, or exercise an option or other right or election or enter into any commitment for the acquisition of any real property (other than certain specified commitments and commitments that do not in the aggregate exceed \$100 million in total consideration payable by PREIT or any PREIT subsidiary, so long as such commitment would not require PREIT or Crown to recirculate this joint proxy statement/prospectus to their respective shareholders; provided that the value of the equity securities that PREIT or PREIT Partnership may issue shall not in the aggregate exceed \$100 million);

enter into or agree to effect any merger, acquisition, exchange offer or other business combination with a third party in which PREIT is the surviving entity, provided that the value of the equity securities that PREIT or PREIT Partnership may issue shall not in the aggregate exceed \$100 million;

incur or enter into any contractual obligation to incur additional debt, that, if incurred would cause PREIT or any PREIT subsidiary to violate a covenant or result in an event of default under any debt of PREIT or any PREIT subsidiary;

amend its organizational documents, except as necessary to comply with any applicable laws, rules or regulations or NYSE rules or regulations after giving notice to Crown of any such proposed amendment;

classify or re-classify any unissued shares, except in specified instances;

issue, sell, pledge, dispose of, grant, transfer or encumber any PREIT common shares or securities convertible prior to the merger into PREIT common shares or authorize the foregoing, or make any change in the number of PREIT common shares, membership interests or units of limited partner interest issued and outstanding, except in specified instances;

grant options or any other rights or commitment relating to its shares of beneficial interest, membership interests or units of limited partner interest, or any security convertible into its shares of capital stock, membership interests or units of limited partner interest, or any security the value of which is measured by shares of beneficial interest, or any security subordinated to the claim of its general creditors, other than options, rights or commitments granted to PREIT employees or trustees in the ordinary course of business consistent with past practice;

amend or waive any rights under any options or other stock rights;

81

---

authorize, declare, set aside or pay any dividend or make any other distribution or payment with respect to the PREIT common shares or PREIT 11% preferred shares or the common or preferred units of limited partner interest in PREIT Partnership, other than certain specified regular dividends on the PREIT common shares and PREIT 11% preferred shares and other than deemed transfers of excess shares as necessary to maintain PREIT's REIT status and redemptions of PREIT Partnership Units under the partnership agreement of PREIT Partnership where solely PREIT common shares are used;

directly or indirectly redeem, purchase or otherwise acquire any shares, membership interests or units of partnership interest or any option, warrant or right to acquire, or security convertible into, shares of beneficial interest, membership interests or units of partnership interest of PREIT or PREIT Partnership, other than deemed transfers of excess shares as necessary to maintain PREIT's REIT status and redemptions of PREIT Partnership Units under the partnership agreement of PREIT Partnership where solely PREIT common shares are used;

sell, mortgage, voluntarily subject to lien or otherwise dispose of any material real property individually or in the aggregate outside the ordinary course of business, except in specified instances;

make, arrange or materially modify any personal loans in violation of Section 402 of the Sarbanes-Oxley Act of 2002;

make any other loans, advances or capital contributions to, or investments in, any other person, except in specified instances;

guarantee the debt of another person, other than certain specified debt of the subsidiaries of PREIT, enter into any "keep well" or other agreement to maintain any financial condition of another person or enter into any arrangement having the same economic effect;

enter into any commitment with any officer, director, trustee or affiliate of PREIT or any of its subsidiaries, increase any compensation or enter into or amend any employment, severance, employment continuation or other arrangement with any of its officers, directors, trustees or employees, other than as expressly required by any contract or plan or any action which, consistent with past practice, is consistent with recommendations made by one or more third-party consultants to PREIT and approved by the compensation committee of the board of trustees of PREIT;

settle any stockholder derivative or class action claims arising out of or in connection with any of the transactions contemplated by the merger agreement except solely for cash payments paid by any insurer or person other than PREIT or its subsidiaries plus an amount paid by PREIT or any of its subsidiaries not exceeding \$250,000 in the aggregate;

accept a promissory note in payment of the exercise price payable under any option to purchase PREIT common shares;

enter into any oral or written "tax protection agreement" (other than under certain specified circumstances) that:

has as one of its purposes to permit a person to take the position that such person could defer federal taxable income that otherwise might have been recognized upon an transfer of property to PREIT Partnership or any other PREIT subsidiary that is treated as a partnership for federal income tax purposes, and that:

prohibits or restricts in any manner the disposition of any assets of PREIT or any PREIT subsidiary;

82

---

requires that PREIT or any PREIT subsidiary maintain, or put in place, or replace debt, whether or not secured by one or more of PREIT's properties; or

requires that PREIT or any PREIT subsidiary offer to any person at any time the opportunity to guarantee or otherwise assume, directly or indirectly, including through a "deficit restoration obligation" guarantee, indemnification agreement or other similar arrangement, the risk of loss for federal income tax purposes for debt or other liabilities of PREIT or any PREIT subsidiary;

specifies or relates to a method of taking into account book-tax disparities under Section 704(c) of the Internal Revenue Code with respect to one or more assets of PREIT or a PREIT subsidiary; or

requires a particular method for allocating one or more liabilities of PREIT or any PREIT subsidiary under Section 752 of the Internal Revenue Code;

cause or allow an event of default to occur with respect to any debt; and

publicly recommend, propose or announce an intention to do any of the foregoing prohibited actions, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions.

#### **No Solicitation by Crown**

Crown has agreed, for itself and for Crown Partnership, that, other than as contemplated in the merger agreement, none of Crown, Crown Partnership or any Crown subsidiary will, and Crown, Crown Partnership and each Crown subsidiary will use commercially reasonable efforts to cause any officer, director, employee, affiliate, agent, investment banker, financial advisor, attorney, accountant, broker, finder, consultant or other agent or representative of Crown, Crown Partnership and each Crown subsidiary, which we collectively refer to as "Crown's representatives," not to:

invite, initiate, solicit or encourage, directly or indirectly, any inquiries, proposals, discussions or negotiations or the making or implementation of any proposal or offer, including any proposal or offer to its shareholders, with respect to an "acquisition proposal," as defined below;

engage in any discussions or negotiations with or provide any confidential or non-public information or data to, or afford access to properties, books or records to, any person relating to, or that may reasonably be expected to lead to, an acquisition

proposal;

enter into any letter of intent, agreement in principle or agreement relating to an acquisition proposal;

propose publicly to agree to do any of the foregoing; or

otherwise facilitate any effort or attempt to make or implement an acquisition proposal, including by amending or granting any waiver under the Crown rights plan.

Crown has agreed, for itself and for Crown Partnership, that, other than as contemplated in the merger agreement:

Crown, Crown Partnership and the Crown subsidiaries will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any persons or entities conducted before the merger agreement with respect to any acquisition proposal, and will take commercially reasonable actions to inform each Crown representative and cause each of them to comply with this obligation;

Crown will promptly request that each person, if any, that has executed a confidentiality agreement in the twenty-four months before May 13, 2003 in connection with the consideration

83

---

by the person of any acquisition proposal return or destroy all confidential information furnished to that person by or on behalf of Crown, Crown Partnership and the Crown subsidiaries; and

Crown will notify PREIT promptly if Crown or any of Crown's subsidiaries or any Crown representative receives:

an acquisition proposal or any amendment or change in any previously received acquisition proposal;

any request for confidential or nonpublic information or data relating to, or for access to the properties, books or records of, Crown or any of Crown's subsidiaries by any person that has made or to its knowledge may be considering making an acquisition proposal; or

any oral or written expression that any activities, discussions or negotiations described above are sought to be initiated or continued with it;

and will include in that notice the identity of the person making the acquisition proposal, indication or request, the material terms of that acquisition proposal, indication or request and, if in writing, will promptly deliver to PREIT copies of any proposal, indication or request along with all other related documentation and correspondence and will keep PREIT informed of the status and material terms of, including all changes to the status or material terms of, any acquisition proposal, indication or request.

However, under certain circumstances, the board of trustees of Crown, including in Crown's capacity as the sole general partner of Crown Partnership, may furnish information to, or enter into discussions or negotiations with, any person that makes a *bona fide* written acquisition proposal to the board of trustees of Crown which was not invited, initiated, solicited or encouraged, directly or indirectly, by Crown or any of Crown's subsidiaries, provided that:

a majority of the board of trustees of Crown determines in good faith, after consultation with its financial advisors of nationally recognized reputation and after receiving advice from its outside legal counsel, that the acquisition proposal is reasonably likely to result in a "superior acquisition proposal," as defined below;

each of Crown and Crown Partnership complies with all its non-solicitation obligations under the merger agreement;

prior to furnishing that information to, or entering into discussions or negotiations with, that person, Crown provides written notice to PREIT which states that it is furnishing information to, or entering into discussions with, that person; and

Crown enters into a confidentiality agreement with that person the terms of which are in all material respects no less favorable to Crown, and no less restrictive to the person making the acquisition proposal, than the terms of the confidentiality agreement entered into with PREIT.

84

---

If an acquisition proposal constitutes a superior acquisition proposal, as described below the board of trustees of Crown may withdraw, modify, amend or qualify its recommendation of the merger agreement and the merger and recommend the superior acquisition proposal to its shareholders provided that:

Crown complies fully with the non-solicitation provisions of the merger agreement and provides PREIT with at least five business days' prior written notice of its intent to withdraw, modify, amend or qualify its recommendation of the merger agreement or the merger;

if during those five business days PREIT makes a counter proposal to the superior acquisition proposal, Crown's board of trustees in good faith, taking into account the advice of its outside financial advisors of nationally recognized reputation, determines that the PREIT counter proposal is:

not at least as favorable to Crown's shareholders as the superior acquisition proposal, from a financial point of view; and

not at least as favorable generally to Crown's shareholders, taking into account all financial and strategic considerations and other relevant factors, including relevant legal, financial, regulatory and other aspects of the proposals, and the conditions, prospects and time required for completion of that proposal; and

Crown terminates the merger agreement under the terms of the merger agreement and pays to PREIT Partnership the termination fee.

For purposes of the merger agreement, an "acquisition proposal" means any direct or indirect:

merger, consolidation, business combination, reorganization, recapitalization, liquidation, dissolution or similar transaction;

sale, acquisition, tender offer, exchange offer, filing of a registration statement under the Securities Act of 1933, as amended, or the Securities Act, in connection with an exchange offer, share exchange or other transaction or series of related transactions that, if consummated, would result in the issuance of securities representing, or the sale, exchange or transfer of, 25% or more of the outstanding voting equity securities of Crown or outstanding partnership interests of Crown Partnership; or

sale, lease, exchange, mortgage, pledge, transfer or other disposition of any assets of Crown or Crown Partnership in one or a series of related transactions that, if consummated, would result in the transfer of more than 25% of the assets of Crown or Crown Partnership, other than the merger.

For purposes of the merger agreement, a "superior acquisition proposal" means a *bona fide* written proposal made by a third party to acquire, directly or indirectly, Crown, Crown Partnership and Crown American Financing Partnership, L.P. in a tender or exchange offer, merger, share exchange, consolidation or sale of all or substantially all of the assets of Crown, Crown Partnership, and their subsidiaries or otherwise:

on terms which a majority of the board of trustees of Crown determines in good faith, after consultation with Crown's financial advisors of nationally recognized reputation, are superior, from a financial point of view, to Crown's shareholders to those provided for in the merger and the transactions contemplated in the merger agreement;

on terms which a majority of the board of trustees of Crown determines in good faith to be more favorable generally to Crown's shareholders, taking into account all financial and strategic considerations and other relevant factors, including relevant legal, financial, regulatory and other

85

---

aspects of the proposals, and the conditions, prospects and time required for completion of the proposal;

for which financing, to the extent required, in the reasonable judgment of the board of trustees of Crown is capable of being obtained; and

which the board of trustees of Crown determines in good faith is reasonably capable of being consummated.

## **Pre-Merger Dividends and Distributions**

### ***Regular Dividends***

Under the merger agreement, Crown is permitted to continue to pay dividends at the stated dividend rates with respect to the Crown 11% preferred shares. On February 5, 2003, Crown declared a dividend of \$1.375 per share payable on March 14, 2003 to holders of record of Crown 11% preferred shares on March 3, 2003, on April 22, 2003, Crown declared a dividend of \$1.375 per share payable on June 13, 2003 to holders of record of Crown 11% preferred shares on June 2, 2003 and on July 23, 2003, Crown declared a dividend of \$1.375 per share payable on September 12, 2003 to holders of record of Crown 11% preferred shares on August 29, 2003. Crown currently anticipates that it will declare a dividend of \$1.375 per share to holders of record of Crown 11% preferred prior to consummation of the merger. Crown does not plan to declare and pay any further regular quarterly dividends if the merger closes before December 31, 2003. If the merger closes after December 31, 2003, Crown currently intends to pay a dividend for the quarter ending December 31, 2003 and to continue to pay regular quarterly dividends for any additional quarterly periods ending before the closing of the merger.

Under the merger agreement, Crown is permitted to continue to pay regular quarterly dividends on its common shares. On February 5, 2003, Crown declared a dividend of \$0.2125 per share payable on March 14, 2003 to holders of record of its common shares on March 3, 2003, on April 22, 2003, Crown declared a dividend of \$0.2150 per share payable on June 13, 2003 to holders of record of its common shares on June 2, 2003 and on July 23, 2003, Crown declared a dividend of \$0.2150 per share payable on September 12, 2003 to holders of record of its common shares on August 29, 2003. Crown currently anticipates that it will declare a dividend of \$0.2150 per share for the quarter ending September 30, 2003 to holders of record of its common shares prior to consummation of the merger. Crown does not plan to declare and pay any further regular quarterly dividends if the merger closes before December 31, 2003. If the merger closes after December 31, 2003, Crown currently intends to pay a dividend for the quarter ending December 31, 2003 at the same rate and to continue to pay regular quarterly dividends for any additional quarterly periods ending before the closing of the merger.

### ***Final Dividend***

In addition to regular quarterly distributions, as described above, the merger agreement provides that Crown will, if necessary, declare a final dividend to holders of Crown common shares and Crown 11% preferred shares in an amount equal to the minimum amount sufficient for Crown to satisfy the REIT distribution requirements under Section 857(a)(1) of the Internal Revenue Code and to avoid the payment of tax with respect to any undistributed income or gain. Section 857(a)(1) requires a REIT to distribute to its shareholders each taxable year an amount equal to 90% of its "REIT taxable income." In addition, a REIT is required to pay tax on any income or gain that it does not distribute to its shareholders, even if it satisfies the 90% distribution requirement. Crown currently does not anticipate that a final dividend will be necessary.

If Crown pays a final dividend to satisfy the distribution requirements described above, PREIT will be entitled to declare a dividend to holders of PREIT common shares in an amount per share equal to

the amount per share of the pre-merger dividend paid by Crown to holders of Crown common shares, divided by 0.3589.

If Crown and PREIT declare final dividends as described above, the Crown dividend will be paid on the third business day before the closing of the merger and the record date will be not later than the sixth business day before the closing of the merger. The PREIT dividend per share payable will be paid on the second business day before the closing of the merger and the record date will be on the fifth business day before the closing of the merger.

If Crown declares a final dividend as described above, Crown Partnership will simultaneously declare a distribution to the holders of common units of limited partner interest in Crown Partnership in an amount per unit equal to the dividend per share to be paid to the holders of Crown common shares, together with any distributions required to be paid to holders of senior preferred units of limited partner interest in Crown Partnership because of any of the dividends described above. If PREIT declares a final dividend as a result of Crown's final dividend described above, PREIT Partnership will simultaneously declare a distribution to the holders of common units of limited partner interest in PREIT Partnership in an amount per unit equal to the dividend per share to be paid to the holders of PREIT common shares.

### **The Pre-Merger Transactions**

Prior to the merger, Crown Partnership will convey to Crown Investments Trust the property located in Johnstown, Pennsylvania known as Pasquerilla Plaza in exchange for the conveyance by Crown Investments Trust of unimproved out-parcels adjacent to three shopping malls owned by Crown to Crown Partnership pursuant to an agreement of exchange dated as of May 13, 2003 between Crown Partnership and Crown Investments Trust. See " The Agreement of Exchange," on page 102. Immediately thereafter, Crown Partnership will distribute to Crown, in complete liquidation of all of Crown's partnership interests in Crown Partnership, Crown's proportionate interest in all of Crown Partnership's assets and substantially all of Crown Partnership's liabilities and Crown will cease to be a partner in Crown Partnership, pursuant to a distribution agreement entered into in connection with the execution of the merger agreement dated May 13, 2003 between Crown and Crown Partnership. The transactions above are collectively referred to as the "pre-merger transactions." See " The Distribution Agreement," beginning on page 103.

### **The Post-Merger Transactions**

Immediately following the effective time of the merger,

PREIT will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership substantially all of the assets of Crown Partnership distributed to Crown pursuant to the distribution agreement and acquired by PREIT from Crown in the merger, and PREIT Partnership will assume all of the liabilities of Crown Partnership assumed by Crown pursuant to the distribution agreement and transferred to PREIT in the merger and will issue PREIT Partnership Units to PREIT, pursuant to the terms of a contribution agreement dated May 13, 2003 entered into between PREIT and PREIT Partnership in connection with the execution of the merger agreement, and

Crown Partnership will, subject to the satisfaction of specified conditions, contribute to PREIT Partnership all of the assets held by Crown Partnership immediately following the merger, which will consist of those assets not distributed to Crown pursuant to the distribution agreement, and which will exclude a portion of Crown Partnership's interest in two partnerships that own 14 shopping malls, and PREIT Partnership will assume substantially all of Crown Partnership's liabilities and will issue to Crown Partnership PREIT Partnership Units, pursuant to the terms of

a contribution agreement dated May 13, 2003 entered into between Crown Partnership and PREIT Partnership in connection with the execution of the merger agreement.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The transactions above are collectively referred to as the "post-merger transactions." See " The Distribution Agreement," beginning on page 103.

### **Conditions to the Merger**

#### ***Conditions to Each Party's Obligations to Effect the Pre-Merger Transactions and the Merger***

The obligations of Crown, Crown Partnership, PREIT and PREIT Partnership to complete the pre-merger transactions and the merger are subject to the fulfillment at or prior to the pre-merger transactions, of the following conditions:

the approval of the merger and the merger agreement by the common shareholders of PREIT (voting separately), certain limited partners of PREIT Partnership (voting together with the common shareholders of PREIT as a single class), the common shareholders of Crown, and Crown Investments Trust and Crown American Investment Company, as limited partners of Crown Partnership;

the waiting period, if any, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 will have expired or been terminated;

the NYSE will have approved for listing the PREIT common shares, the PREIT 11% preferred shares, and the PREIT common shares underlying the Class A PREIT Partnership Units and the Class B PREIT Partnership Units to be issued in the merger and the transactions contemplated in the merger agreement, subject to official notice of issuance, prior to the effective time of the merger;

the registration statement on Form S-4 of which this proxy statement/prospectus forms a part will have become effective and will not be the subject of any stop order or proceedings by the SEC seeking a stop order;

no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the completion of the merger or any of the other transactions contemplated by the merger agreement will be in effect;

PREIT and PREIT Partnership will have received all state securities or "blue sky" permits and other authorizations necessary to issue the PREIT common shares, Class A PREIT Partnership Units and Class B PREIT Partnership Units issuable in the merger and the transactions contemplated in the merger agreement;

Crown and Crown Partnership will have obtained and delivered to PREIT certain specified consents and waivers; and

PREIT and PREIT Partnership will have obtained and delivered to Crown certain specified consents and waivers, including the consent of certain lenders of Crown and PREIT.

88

---

#### ***Conditions to the Obligations of PREIT and PREIT Partnership to Effect the Pre-Merger Transactions and the Merger***

The obligations of PREIT and PREIT Partnership to complete the pre-merger transactions and the merger are subject to the fulfillment at or prior to the pre-merger transactions, of the following conditions, any one or more of which may be waived by PREIT:

each of the representations and warranties of Crown and Crown Partnership contained in the merger agreement, disregarding all qualifications and exceptions relating to materiality or a Crown material adverse effect, as described below, will be true and correct as of the date of the merger agreement and as of the date of completion of the pre-merger transactions:



except to the extent that these representations and warranties are as of a specified date, in which case these representations and warranties will be true and correct as of that other date; and

except where the failure of these representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a Crown material adverse effect (as described below);

Crown and Crown Partnership will have performed all obligations required to be performed by them under the merger agreement at or before the date of completion of the pre-merger transactions, except where the failure to perform would not permit PREIT to terminate the merger agreement in a specified manner;

since the date of the merger agreement, there will have been no Crown material adverse effect;

PREIT will have received a certificate of an officer of Crown certifying satisfaction of each of the above conditions; and

PREIT will have received (1) an opinion, dated as of the date of the merger agreement (which opinion was received), and (2) an opinion dated as of the date of the completion of the pre-merger transactions:

from counsel to Crown relating to the REIT status of Crown and the partnership status of Crown Partnership;

from counsel to PREIT relating to the REIT status of PREIT; and

from counsel to PREIT relating to the federal income tax treatment of the merger.

As used in the merger agreement, a "Crown material adverse effect" means any circumstance, event, occurrence, change or effect that is materially adverse to the business, properties, assets (tangible or intangible), financial condition or results of operations of Crown, Crown Partnership and the other Crown subsidiaries, taken as a whole, except, in each case, as a result of:

changes in general economic conditions nationally or regionally;

changes affecting the real estate industry generally which do not affect Crown or Crown Partnership, as the case may be, materially disproportionately relative to other participants in the real estate industry similarly situated; or

in and of itself and without the occurrence of any other Crown material adverse effect, changes in the trading prices of Crown common shares or Crown 11% preferred shares.

***Conditions to the Obligations of Crown and Crown Partnership to Effect the Pre-Merger Transactions and the Merger***

The obligations of Crown and Crown Partnership to complete the pre-merger transactions and the merger are subject to the fulfillment at or prior to the date of completion of the pre-merger transactions, of the following conditions, any one or more of which may be waived by Crown:

each of the representations and warranties of PREIT and PREIT Partnership contained in the merger agreement, disregarding all qualifications and exceptions relating to materiality or a PREIT material adverse effect, as described below, will be true and correct as of the date of the merger agreement and as of the date of completion of the pre-merger transactions:

except to the extent that these representations and warranties are as of a specified date, in which case these representations and warranties will be true and correct as of that other date; and

except where the failure of these representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a PREIT material adverse effect (as described below);

PREIT and PREIT Partnership will have performed all obligations required to be performed by them under the merger agreement at or before the date of completion of the pre-merger transactions, except where the failure to perform would not permit Crown to terminate the merger agreement in a specified manner;

since the date of the merger agreement, there will have been no PREIT material adverse effect;

Crown will have received a certificate of an officer of PREIT certifying the satisfaction of each of the above conditions; and

Crown will have received (1) an opinion, dated as of the date of the merger agreement (which opinion was received), and (2) an opinion dated as of the date of the completion of the pre-merger transactions:

from counsel to PREIT relating to the REIT status of PREIT and the partnership status of PREIT Partnership; and

from counsel to Crown relating to the federal income tax treatment of the merger.

As used in the merger agreement, a "PREIT material adverse effect" means any circumstance, event, occurrence, change or effect that is materially adverse to the business, properties, assets (tangible or intangible), financial condition or results of operations of PREIT, PREIT Partnership and the other PREIT subsidiaries, taken as a whole, except, in each case, as a result of:

changes in general economic conditions nationally or regionally;

changes affecting the real estate industry generally which do not affect PREIT or PREIT Partnership, as the case may be, materially disproportionately relative to other participants in the real estate industry similarly situated; or

in and of itself and without the occurrence of any other PREIT material adverse effect, changes in the trading prices of PREIT common shares.

***Conditions to Each Party's Obligations to Effect the Merger and the Post-Merger Transactions***

The obligations of Crown, Crown Partnership, PREIT and PREIT Partnership to complete the merger and the post-merger transactions are subject to the fulfillment at or prior to the closing date of the following conditions:

no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the completion of the merger or any of the other transactions contemplated by the merger agreement will be in effect; and

the pre-merger transactions will have been completed at least one business day prior to the closing date.

**Termination of the Merger Agreement**

***Right to Terminate***

The merger agreement may be terminated at any time before the date of completion of the pre-merger transactions, whether such action occurs before or after approval of the merger agreement and the merger by the PREIT shareholders, the Crown shareholders, PREIT Partnership limited partners or the Crown Partnership limited partners, as applicable, are obtained, only:

by mutual written consent duly authorized by the board of trustees of both PREIT and Crown;

by PREIT:

(1)

upon a material breach of or material failure on the part of Crown or Crown Partnership to perform any of the following covenants, obligations or agreements:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as previously conducted;

use commercially reasonable efforts to preserve intact its business organizations and goodwill and, provided it does not require additional compensation, keep available the services of its officers and employees;

include one or more representatives of PREIT at weekly Crown management meetings at which Crown will report on all operational matters of materiality and confer with representatives of PREIT on any proposals to engage in material transactions or transactions in excess of 10% of certain applicable operating and capital expenditure budgets of the Crown property to which the proposal relates;

notify PREIT as soon as practicable of the occurrence or existence of any circumstance that has had or would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of Crown and its subsidiaries taken as a whole (a "Crown material adverse effect") or a material adverse effect on any Crown property;

deliver to PREIT as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect Crown's qualification as a REIT under the Internal Revenue Code;

91

---

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide Crown's current coverage or with other insurance companies that have equivalent or better financial ratings;

not sell, lease, mortgage, subject to lien or otherwise dispose of any personal property or intangible property, except with respect to the Pasquerilla Plaza or in the ordinary course of business and not

material, individually or in the aggregate;

not enter into, modify, amend or supplement any management agreement or other contracts providing, in each case, for payments thereunder of \$100,000 or more (provided that, in order to be material, such breach or breaches must relate to contracts having an aggregate value equal to \$750,000 or more); or

not publicly recommend, propose or announce an intention to do any of the prohibited actions described in "Conduct of Business of Crown and Crown Partnership Pending the Merger" beginning on page 76, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions;

(2)

upon a breach of or failure on the part of Crown or Crown Partnership to perform any of the following covenants, obligations or agreements, if such breach has had or would reasonably be expected to have either a Crown material adverse effect or a material adverse effect on any Crown property:

pay all real estate taxes when due in the ordinary course of business consistent with past practices; or

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices;

(3)

upon a breach of or failure to perform in any material respect any other covenant, obligation or agreement on the part of Crown or Crown Partnership set forth in the merger agreement, subject to certain specified exceptions; or

(4)

upon a breach of or if any representation or warranty of Crown or Crown Partnership is or becomes untrue as of May 13, 2003 or as of any subsequent date prior to or on the date of completion of the pre-merger transactions, as a result of any action or inaction by Crown or Crown Partnership or any other event, circumstance or occurrence, such that Crown would be unable by February 27, 2004 to satisfy the condition to closing which requires Crown to deliver a certificate certifying as to certain matters relating to the accuracy of its representations and warranties;

provided, that, if the breach is curable on or before February 20, 2004 without Crown or Crown Partnership breaching or failing to perform any covenant, obligation or agreement under the merger agreement, then PREIT may terminate only upon the failure of Crown or Crown Partnership to cure that breach or failure within ten business days after receipt of written notice from PREIT requesting cure of such breach or failure (or as extended by mutual written agreement, or if the breach or failure could not reasonably be expected to be cured within ten business days then, subject to certain specified conditions, as promptly as practicable but in no event later than February 20, 2004).

by Crown:

(1)

upon a material breach of or material failure on the part of PREIT or PREIT Partnership to perform any of the following covenants, obligations or agreements:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as previously conducted;

use commercially reasonable efforts to preserve intact its business organizations and goodwill and, provided it does not require additional compensation, keep available the services of its officers and

employees;

confer at least weekly with one or more representatives of Crown to report on operational matters of materiality and any proposals to engage in material transactions;

notify Crown as soon as practicable of the occurrence or existence of any circumstance that has had or would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of PREIT and its subsidiaries taken as a whole or a material adverse effect on any PREIT property;

deliver to Crown as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect PREIT's qualification as a REIT under the Internal Revenue Code;

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide PREIT's current coverage or with other insurance companies that have equivalent or better financial ratings;

grant options or any other rights or commitment relating to its shares of beneficial interest, membership interests or units of limited partner interest, or any security convertible into its shares of capital stock, membership interests or units of limited partner interest, or any security the value of which is measured by shares of beneficial interest, or any security subordinated to the claim of its general creditors, other than options, rights or commitments granted to PREIT employees or trustees in the ordinary course of business consistent with past practice;

other than with respect to certain specified transactions, not sell, mortgage, voluntarily subject to lien or otherwise dispose of any of the material PREIT properties, individually or in the aggregate outside the ordinary course of business; or

not publicly recommend, propose or announce an intention to do any of the prohibited actions described in "Conduct of Business of PREIT and PREIT Partnership Pending the Merger" beginning on page 80, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions;

(2)

upon a breach of or failure on the part of PREIT or PREIT Partnership to perform any of the following covenants, obligations or agreements, if such breach has had or would

reasonably be expected to have either a PREIT material adverse effect or a material adverse effect on any PREIT property:

pay all real estate taxes when due in the ordinary course of business consistent with past practices; or

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices;

- (3) upon a breach of or failure to perform in any material respect any other covenant, obligation or agreement on the part of PREIT or PREIT Partnership set forth in the merger agreement, subject to certain specified exceptions; or
- (4) upon a breach of or if any representation or warranty of PREIT or PREIT Partnership is or becomes untrue as of May 13, 2003 or as of any subsequent date prior to or on the date of completion of the pre-merger transactions, as a result of any action or inaction by PREIT or PREIT Partnership or any other event, circumstance or occurrence, such that PREIT would be unable by February 27, 2004 to satisfy the condition to closing which requires PREIT to deliver a certificate certifying as to certain matters relating to the accuracy of its representations and warranties;
- provided, that, if the breach is curable on or before February 20, 2004 without PREIT or PREIT Partnership breaching or failing to perform any covenant, obligation or agreement under the merger agreement, then Crown may terminate only upon the failure of PREIT or PREIT Partnership to cure that breach or failure within ten business days after receipt of written notice from PREIT requesting cure of such breach or failure (or as extended by mutual written agreement, or if the breach or failure could not reasonably be expected to be cured within ten business days then, subject to certain specified conditions, as promptly as practicable but in no event later than February 20, 2004).

by either PREIT or Crown:

- (1) if any judgment, injunction, order, decree or action by any governmental entity preventing the consummation of the pre-merger transactions, the merger or the post-merger transactions becomes final and non-appealable; or
- (2) if the merger is not consummated on or before February 27, 2004.

by either PREIT or, upon five business days prior written notice, Crown if, the Crown shareholders fail to approve the merger and the merger agreement at the Crown special meeting or if holders of Crown Partnership Units fail to approve the merger and the merger agreement by the required vote, but Crown may not terminate for this reason if it or Crown Partnership is in breach in any material respect of its obligations contained in the merger agreement relating to obtaining the required Crown shareholder and partner approvals;

by either Crown or, upon five business days prior written notice, PREIT if, the PREIT shareholders fail to approve the merger and the merger agreement at the PREIT special meeting or if holders of PREIT Partnership Units fail to approve the merger agreement and the transactions contemplated by the merger agreement, but PREIT may not terminate for this reason if it or PREIT Partnership is in breach in any material respect of its obligations contained in the merger agreement relating to obtaining the required PREIT shareholder and partner approvals;

by Crown, if the board of trustees of Crown shall have withdrawn, modified, amended or qualified, or proposed publicly not to recommend or to withdraw, modify, amend or

---

qualify, in any manner adverse to PREIT (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) its approval or recommendation of either of the merger or the merger agreement in connection with, any superior acquisition proposal, or to enter into a binding written agreement with respect to a superior acquisition proposal, so long as, in each case, Crown has complied with the terms of the no solicitation provisions contained in the merger agreement and, before terminating the merger agreement in this way, has paid to

PREIT Partnership the termination fee;

by PREIT or PREIT Partnership, if (1) the board of trustees of Crown shall have failed to recommend or withdrawn, modified, amended or qualified, or proposed publicly not to recommend or to withdraw, modify, amend or qualify, in any manner adverse to PREIT (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) its approval or recommendation of either of the merger or the merger agreement in connection with, any superior acquisition proposal, (2) following the announcement or receipt of an acquisition proposal, Crown has failed to call the Crown special shareholders meeting or failed to prepare and mail to its shareholders this joint proxy statement/prospectus or (3) the Crown board of trustees of any committee of the Crown board of trustees has resolved to do any of the foregoing;

by PREIT or PREIT Partnership, or by Crown or Crown Partnership, if the PREIT board of trustees approves or recommends (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) any alternative proposal, provided that prior to terminating for this reason PREIT or PREIT Partnership pays to Crown the termination fee;

by Crown or Crown Partnership, if PREIT announces a reduction in the dividend on the PREIT common shares or takes any action to authorize, approve, recommend or effect such a reduction and such reduction is not the result of a PREIT material adverse effect or a Crown material adverse effect;

by Crown or Crown Partnership, if Crown determines after consultation with PREIT that there is a PREIT material adverse effect; or

by PREIT or PREIT Partnership, if PREIT determines after consultation with Crown that there is a Crown material adverse effect.

For purposes of the merger agreement, an "alternative proposal" means any direct or indirect proposal or offer relating to:

a merger, consolidation, business combination, reorganization, recapitalization, liquidation, dissolution or similar transaction;

a sale, acquisition, tender offer, exchange offer, the filing of a registration statement under the Securities Act in connection with an exchange offer, share exchange or other transaction or series of related transactions that, if consummated, would result in the issuance of securities, or the sale, exchange or transfer of, any voting equity securities of PREIT or outstanding partnership interests of PREIT Partnership; or

a sale, lease, exchange, mortgage, pledge, transfer or other disposition of any assets of PREIT or PREIT Partnership in one or a series of related transactions that prohibits completion of the merger and other transactions contemplated under the merger agreement.

***Right to Terminate after the Date of Completion of the Pre-Merger Transactions***

The merger agreement may be terminated at any time after the date of completion of the pre-merger transactions and prior to the effective time of the merger, only:

by either PREIT and Crown, if any judgment, injunction, order, decree or action by any governmental entity preventing the consummation of the merger becomes final and non-appealable;

by PREIT or PREIT Partnership, if any of Crown, Crown Partnership or the Pasquerilla group has failed to perform in any material respect any covenant, obligation or agreement on the part of Crown or Crown Partnership required to be performed on the closing date (unless Crown or Crown Partnership has the right to terminate as set forth in the paragraph immediately below); or

by Crown or Crown Partnership, if PREIT or PREIT Partnership has failed to perform in any material respect any covenant, obligation or agreement on the part of PREIT or PREIT Partnership required to be performed on the closing date (unless PREIT or PREIT Partnership has the right to terminate as set forth in the paragraph immediately above).

### *Effect of Termination*

Except for provisions in the merger agreement regarding confidentiality of nonpublic information, payment of fees and expenses, the effect of termination and specified miscellaneous provisions, if the merger agreement is terminated as described above, the merger agreement will become void and have no effect and there will be no liability on the part of PREIT, PREIT Partnership, Crown or Crown Partnership, except to the extent that the termination results from a certain specified breaches by any party of any of its representations, warranties, covenants or agreements contained in the merger agreement, in which case nothing in the merger agreement will in any way limit a party's liability for any breach by such party of its representations, warranties, covenants or agreements contained in the merger agreement.

### *Expenses; Termination Fee*

Except as described below, each party to the merger agreement will bear its own fees and expenses in connection with the transactions contemplated by the merger agreement.

Crown and Crown Partnership will pay to PREIT Partnership a termination fee if the merger agreement is terminated:

by Crown, if the board of trustees of Crown shall have withdrawn, modified, amended or qualified, or proposed publicly not to recommend or to withdraw, modify, amend or qualify, in any manner adverse to PREIT (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) its approval or recommendation of either of the merger or the merger agreement in connection with, any superior acquisition proposal, or to enter into a binding written agreement with respect to a superior acquisition proposal, so long as, in each case, Crown has complied with the terms of the no solicitation provisions contained in the merger agreement;

by PREIT or PREIT Partnership, if (1) the board of trustees of Crown shall have failed to recommend or withdrawn, modified, amended or qualified, or proposed publicly not to recommend or to withdraw, modify, amend or qualify, in any manner adverse to PREIT (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) its approval or recommendation of either of the merger or the merger agreement in connection with, any superior acquisition proposal,

96

---

(2) following the announcement or receipt of an acquisition proposal, Crown has failed to call the Crown special shareholders meeting or failed to prepare and mail to its shareholders this joint proxy statement/prospectus or (3) the Crown board of trustees of any committee of the Crown board of trustees has resolved to do any of the foregoing;

under the circumstances listed below, but only if (a) Crown or Crown Partnership has received an acquisition proposal (which, for this purpose only, relates to the transfer of 50% or more of the voting power or assets of Crown or Crown Partnership) before the termination and (b) either before or within 12 months after the termination, Crown or Crown Partnership enters into an agreement regarding a qualified Crown acquisition that is later completed:

by either PREIT or Crown if any judgment, injunction, order, decree or action by any governmental entity preventing the consummation of the pre-merger transactions, the merger or the post-merger transactions becomes final and non-appealable, and such judgment, injunction, order, decree or action is primarily the result of any



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

action or inaction by Crown or Crown Partnership in breach of the merger agreement or the result of Crown or Crown Partnership seeking or assisting a third party in seeking such judgment, injunction, order, decree or action; or

by Crown if the merger is not consummated on or before February 27, 2004.

PREIT and PREIT Partnership will pay to Crown Partnership a termination fee if the merger agreement is terminated:

by PREIT or PREIT Partnership, or by Crown or Crown Partnership, if the PREIT board of trustees approves or recommends (other than following the valid exercise by Crown or Crown Partnership of its termination right pursuant to another section of the merger agreement) any alternative proposal.

For purposes of the merger agreement, a "qualified Crown acquisition" means any direct or indirect:

merger, consolidation, business combination, reorganization, recapitalization, liquidation, dissolution or similar transaction, sale, acquisition, tender offer, exchange offer or share exchange, sale, lease, exchange, mortgage, pledge, transfer or other disposition of any assets of Crown or Crown Partnership or other transaction that,

in one or a series of related transactions, will result in (A) the issuance of securities representing, or the sale, exchange or transfer of, 50% or more of the outstanding voting equity securities of Crown or outstanding partnership interests of Crown Partnership; or (B) the transfer of 50% or more of the assets of Crown or Crown Partnership.

The termination fee that PREIT Partnership or Crown Partnership may be entitled to receive will be an amount equal to the lesser of (1) \$20 million less termination expenses, as described below, paid or payable under the merger agreement and (2) the maximum amount that can be paid to such party without causing such party to fail to meet the REIT income requirements under the Internal Revenue Code. The unpaid amount, if any, will be placed in escrow and will be paid in subsequent years to the extent the payment would not cause such party to fail to meet the REIT income requirements under the Internal Revenue Code. Crown's and Crown Partnership's and PREIT and PREIT Partnership's obligation to pay any unpaid portion of the termination fee will terminate on May 13, 2006.

Crown and Crown Partnership will pay to PREIT Partnership (provided that Crown was not entitled to terminate the merger agreement because PREIT or PREIT Partnership failed to perform

97

---

certain specified covenants, obligations and agreements in the merger agreement) termination expenses if the merger agreement is terminated:

by PREIT:

upon a material breach of or material failure on the part of Crown or Crown Partnership to perform any of the following covenants, obligations or agreements:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as theretofore conducted;

use commercially reasonable efforts to preserve intact its business organizations and goodwill and, provided it does not require additional compensation, keep available the services of its officers and employees;

include one or more representatives of PREIT at weekly Crown management meetings and confer with representatives of PREIT on any proposals to engage in material transactions or transactions in excess of 10% of certain applicable operating and capital expenditure budgets;

notify PREIT as soon as practicable of the occurrence or existence of any circumstance that would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of Crown and its subsidiaries taken as a whole or a material adverse effect on any Crown Properties;

deliver to PREIT as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect Crown's qualification as a REIT under the Internal Revenue Code;

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide their current coverage or with other insurance companies that have equivalent or better financial ratings;

not sell, lease, mortgage, subject to lien or otherwise dispose of any personal property or intangible property, except with respect to the Pasquerilla Plaza or in the ordinary course of business and not material, individually or in the aggregate;

not modify, amend or supplement any management agreement or other contracts providing, in each case, for payments thereunder of \$100,000 or more (provided that, in order to be material, such breach or breaches must relate to contracts having an aggregate value equal to \$750,000 or more); or

not publicly recommend, propose or announce an intention to do any of the foregoing prohibited actions, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions;

upon a breach of or failure on the part of Crown or Crown Partnership to perform any of the following covenants, obligations or agreements, if such breach has had or would

reasonably be expected to have either a Crown material adverse effect or a material adverse effect on any Crown property:

pay all real estate taxes when due in the ordinary course of business consistent with past practices; or

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices;

upon a breach of or failure to perform in any material respect any other covenant, obligation or agreement on the part of Crown or Crown Partnership set forth in the merger agreement, subject to certain specified exceptions; or

upon a breach of or if any representation or warranty of Crown or Crown Partnership is or becomes untrue as of May 13, 2003 or as of any subsequent date prior to or on the date of completion of the pre-merger transactions, as a result of any action or inaction by Crown or Crown Partnership, such that Crown would be unable by February 27, 2004 to satisfy the condition to closing which requires Crown to deliver a certificate certifying as to certain matters relating to the accuracy of its representations and warranties; or

by either PREIT or, provided Crown has given at least five business days prior written notice of its intent to so terminate the merger agreement, Crown if, the Crown shareholders fail to approve the merger and the merger agreement at the Crown special meeting or if holders of Crown Partnership Units fail to approve the merger and the merger agreement by the required vote.

PREIT and PREIT Partnership will pay to Crown Partnership termination expenses (provided that PREIT was not entitled to terminate the merger agreement because Crown or Crown Partnership failed to perform in certain specified covenants, obligations and agreements in the merger agreement) if the merger agreement is terminated:

by Crown:

upon a material breach of or material failure on the part of PREIT or PREIT Partnership to perform any of the following covenants, obligations or agreements:

conduct its business and operate its properties only in the ordinary course and in substantially the same manner as theretofore conducted;

use commercially reasonable efforts to preserve intact its business organizations and goodwill and, provided it does not require additional compensation, keep available the services of its officers and employees;

confer at least weekly with one or more representatives of Crown to report on operational matters of materiality and any proposals to engage in material transactions;

notify Crown as soon as practicable of the occurrence or existence of any circumstance that would reasonably be expected to have a material adverse effect on the business, properties, assets, financial condition or results of operations of PREIT and its subsidiaries taken as a whole or a material adverse effect on any PREIT properties;

deliver to Crown as soon as practicable true and correct copies of any report, statement, schedule or other document filed with the SEC after May 13, 2003;

duly and timely file all tax returns required to be filed with federal authorities and all reports required to be filed with the SEC, and duly file all other material reports, tax returns and other documents required to be filed with federal, state, local and other

---

authorities, subject to extensions permitted by law, provided that the extensions do not adversely affect PREIT's qualification as a REIT under the Internal Revenue Code;

maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on May 13, 2003 with the same insurance companies that provide their current coverage or with other insurance companies that have equivalent or better financial ratings;

grant options or any other rights or commitment relating to its shares of beneficial interest, membership interests or units of limited partner interest, or any security convertible into its shares of capital stock, membership interests or units of limited partner interest, or any security the value of which is measured by shares of beneficial interest, or any security subordinated to the claim of its general creditors, other than options, rights or commitments granted to PREIT employees or trustees in the ordinary course of business; or

not publicly recommend, propose or announce an intention to do any of the foregoing prohibited actions, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing prohibited actions;

upon a breach of or failure on the part of PREIT or PREIT Partnership to perform any of the following covenants, obligations or agreements, if such breach has had or would reasonably be expected to have either a PREIT material adverse effect or a material adverse effect on any PREIT property:

pay all real estate taxes when due in the ordinary course of business consistent with past practices; or

pay all debts and discharge all liabilities when due in the ordinary course of business consistent with past practices;

upon a breach of or failure to perform in any material respect any other covenant, obligation or agreement on the part of PREIT or PREIT Partnership set forth in the merger agreement, subject to certain specified exceptions; or

upon a breach of or if any representation or warranty of PREIT or PREIT Partnership is or becomes untrue as of May 13, 2003 or as of any subsequent date prior to or on the date of completion of the pre-merger transactions, as a result of any action or inaction by PREIT or PREIT Partnership, such that PREIT would be unable by February 27, 2004 to satisfy the condition to closing which requires PREIT to deliver a certificate certifying as to certain matters relating to the accuracy of its representations and warranties.

by either Crown or, provided PREIT has given at least five business days prior written notice of its intent to so terminate the merger agreement, PREIT if, the PREIT shareholders fail to approve the merger and the merger agreement at the PREIT special meeting, provided that the approval of the Crown shareholders has been obtained; or

by Crown or Crown Partnership, if PREIT announces a reduction in the dividend on the PREIT common shares or takes any action to authorize, approve, recommend or effect such a reduction.

The termination expenses that PREIT Partnership or Crown Partnership may be entitled to receive in these cases will be an amount equal to the lesser of (a) \$7,000,000 (or \$3,500,000 in the case of termination expenses payable to Crown Partnership upon a termination relating to the failure to obtain certain PREIT shareholders approvals or payable to PREIT Partnership upon a termination relating to the failure to obtain certain Crown shareholders or partner approvals) and (b) the maximum amount

that can be paid to such party without causing the party to fail to meet the REIT income requirements under the Internal Revenue Code. The unpaid amount, if any, will be placed in escrow and will be paid in subsequent years to the extent the payment would not cause such party to fail to meet the REIT income requirements under the Internal Revenue Code. The paying party's obligation to pay any unpaid portion of the

termination expenses will terminate on May 13, 2006.

In addition, if any party prevails in a suit for a breach by another party of its obligation to pay the termination fee or termination expenses under the merger agreement, such party will be entitled to its costs and expenses in connection with the suit, with interest.

#### **Waiver and Amendment of the Merger Agreement**

The merger agreement may be amended by the parties in writing by action of the respective board of trustees of PREIT and Crown at any time before the filing of the Pennsylvania articles of merger or the Maryland articles of merger relating to the merger, except as otherwise specified.

At any time before the effective time of the merger, the parties may, in writing:

extend the time for the performance of any of the obligations or other acts of the other party;

waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or in any document delivered under the merger agreement; or

waive compliance with any of the agreements or conditions of the other party contained in the merger agreement, except as otherwise specified.

#### **Indemnification; Directors' and Officers' Insurance**

Under the merger agreement, PREIT and PREIT Partnership will provide exculpation and indemnification for each person who has been at any time on or before May 13, 2003, or who becomes before the completion of the merger, an officer, director or trustee of Crown or any Crown subsidiary. This exculpation and indemnification will be the same as provided to these persons by Crown and its subsidiaries immediately before the completion of the merger in each entity's respective charter, by-laws, partnership, operating or similar agreement, as applicable, as in effect on May 13, 2003. However, no such exculpation or indemnification will be provided by PREIT or PREIT Partnership to Mark E. Pasquerilla for certain specified claims. This exculpation and indemnification covers actions only on or before the completion of the merger, including all transactions contemplated by the merger agreement.

In addition, PREIT and PREIT Partnership will indemnify and hold harmless, to the full extent permitted by applicable law, each of the persons described above against any losses, claims, liabilities, expenses, judgments, fines and amounts paid in settlement in connection with any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including any action by or on behalf of any or all security holders of Crown or PREIT, or any of their subsidiaries, or by or in the right of Crown or PREIT, or any of their subsidiaries, in which any of these persons is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to:

the fact that he is or was an officer, employee, director or trustee of Crown or any of its subsidiaries or any action or omission by that person in his capacity as a trustee; or

the merger agreement or the transactions contemplated by the merger agreement, whether in any case asserted or arising before or after the completion of the merger.

After the completion of the merger, PREIT and PREIT Partnership will be obligated to promptly pay and advance reasonable expenses and costs incurred by each of these persons as they become due

and payable in advance of the final disposition of the claim, action, suit, proceeding or investigation to the fullest extent and in the manner permitted by law. PREIT is also obligated to purchase, at or before the completion of the merger, trustees', directors' and officers' liability insurance policy coverage for Crown's trustees and officers for a period of six years which will provide the trustees and officers with coverage

on terms no less favorable to Crown's trustees and officers as is currently provided by Crown to these trustees and officers. However, if the premium for such coverage exceeds 200% of the premium in effect on May 13, 2003, PREIT will only be required to purchase comparable coverage for an amount not to exceed 200% of the premium of such policy in effect on May 13, 2003, provided that during such six year period, in no event will PREIT provide insurance coverage that is less favorable to Crown trustees and officers than is maintained by PREIT for its trustees and officers.

#### **Assumption of Crown's Obligations under Registration Rights and Exchange Agreements**

Under the merger agreement, PREIT has agreed to assume Crown's obligations under existing registration rights agreements and exchange agreements between Crown and certain holders of Crown Partnership Units by entering into one or more registration rights agreements and exchange agreements with certain specified persons at the closing.

#### **Agreements with Mark E. Pasquerilla and Affiliates**

On or prior to the date of completion of the pre-merger transactions, Crown and PREIT will and will cause their affiliates and subsidiaries to execute and deliver the following to which they are a party: (1) a shareholder agreement, (2) a tax protection agreement, (3) a non-competition agreement, (4) a standstill agreement and (5) a registration rights agreement, all as described under the heading "Agreements with Mark E. Pasquerilla and Affiliates" beginning on page 109.

#### **The Agreement of Exchange**

Contemporaneously with the execution of the merger agreement, Crown Partnership and Crown Investments Trust entered into an agreement of exchange dated as of May 13, 2003. The merger agreement provides that prior to the pre-merger transactions, pursuant to the agreement of exchange, Crown Partnership will convey to Crown Investments Trust the property located in Johnstown, Pennsylvania known as Pasquerilla Plaza in exchange for the conveyance by Crown Investments Trust of unimproved out-parcels adjacent to three shopping malls owned by Crown to Crown Partnership. Pasquerilla Plaza will be conveyed to Crown Investments Trust subject to the outstanding mortgage loans secured by the property, which was approximately \$1.214 million as of August 31, 2003. Prior to the execution of the agreement of exchange, appraisals were obtained which valued Pasquerilla Plaza at \$8.0 million and valued the out-parcels at \$6.825 million. Subsequently, as of August 31, 2003 three out-parcels were sold to third parties for net proceeds of \$0.71 million. At the closing of the transactions contemplated by the agreement of exchange, Crown Investments Trust will pay to Crown Partnership the amount of the difference between the appraised value of the remaining out-parcels and the appraised value of Pasquerilla Plaza less the amount of the debt being assumed by Crown Investments Trust. This net amount is approximately \$0.67 million as of August 31, 2003. The exchange is not intended to qualify as a tax-free exchange under the Internal Revenue Code. Following completion of the pre-merger and post-merger transactions described below, the three out-parcels will be owned by PREIT Partnership.

#### **Sale of Oak Ridge and Amendments to Crown Partnership Agreement and Support Agreement**

On March 31, 2003, Oak Ridge Mall was sold by Crown to Crown Investments Trust ("Crown Investments"), an entity controlled by Mark E. Pasquerilla, and the Cash Flow Support Agreement ("Support Agreement") among Crown, Crown Investments and Crown American Financing Partnership was also amended to eliminate Oak Ridge from the properties covered by the Support Agreement. The

consideration for Oak Ridge was an effective reduction in Crown American Investment Company's ("CAIC") and Crown Investments' percentage interest in Crown Partnership as described below. The reduction in CAIC's and Crown Investments' percentage interest in Crown Partnership for Oak Ridge was equivalent to 1,159,794 Crown Partnership Units or \$11.4 million based on the price per Crown common share on March 27, 2003 and for the Support Agreement relative to Oak Ridge 2,600,000 Crown Partnership Units or \$25.6 million. The aggregate value of the consideration paid by affiliates of Mark E. Pasquerilla for Oak Ridge and the related amendment to the Support Agreement was \$37.0 million.

Crown's 32,071,965 outstanding common Crown Partnership Units as of March 31, 2003 were unchanged as a result of the Oak Ridge transactions. However, the number of Crown common shares for which the Crown Partnership Units held by Mr. Pasquerilla and his affiliates were redeemable was reduced by 3,759,794 shares. As a result, the Oak Ridge transactions had the equivalent economic impact of reducing the number of Crown common shares and Crown Partnership Units owned by Mr. Pasquerilla and his affiliates and, consequently, the total number of Crown common shares and Crown Partnership Units effectively outstanding, by 3,759,794.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

On June 17, 2003, Crown Investments sold Oak Ridge for gross proceeds of \$6 million (other than one out-parcel containing a movie theater). Crown Investments retained a portion of Oak Ridge with an estimated value of approximately \$4.6 million.

In connection with the execution of the merger agreement, on May 13, 2003, Crown Investments, Crown Partnership and Crown American Financing Partnership entered into the Fourth Amendment to the Amended and Restated Cash Flow Support Agreement (the "Fourth Amendment") to provide that Crown Investments has no further contribution or other obligations under the Support Agreement and to revise the percentage interest of Crown Investments to reflect an adjustment equivalent to reducing the Crown Partnership Units held by Crown Investments by 500,000. At the same time, Crown, Crown Investments and CAIC entered into the Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of Crown Partnership to reflect the revised percentage ownership interests of Crown Investments and CAIC as a result of the Fourth Amendment. In order to reflect the respective interests in Crown Partnership after this reduction and the reductions contemplated by the Oak Ridge transactions described above, the exchange ratio for Crown Partnership Units owned by Mr. Pasquerilla's affiliates is approximately 0.2053, which is lower than the 0.3589 exchange ratio for the Crown common shares.

### **The Distribution Agreement**

In connection with the merger agreement, Crown and Crown Partnership entered into a distribution agreement, dated as of May 13, 2003. The distribution agreement provides that, one business day before the closing of the merger, Crown Partnership will distribute to Crown Crown's proportionate interest in all of Crown Partnership's assets, and Crown will assume its proportionate interest in substantially all of Crown Partnership's liabilities, in complete liquidation of Crown's partnership interests in Crown Partnership (including its general partner interest). Following such distribution, Crown will have no continuing interest in Crown Partnership. However, Crown has agreed to indemnify Crown Partnership and its partners, officers, employees and agents against any losses incurred by any of them arising from the Crown Partnership liabilities assumed by Crown under the distribution agreement or from certain other employment-related liabilities relating to Crown Partnership's employees (including any such losses arising from PREIT's failure to perform its obligations under the merger agreement with respect to employment matters).

The consummation of the distribution transaction is conditioned upon specified conditions having been satisfied. The distribution agreement will automatically terminate in the event that the merger agreement is terminated.

103

---

In the merger, PREIT will succeed to the proportionate interest in Crown Partnership's assets and liabilities that were distributed to and assumed by Crown in such distribution transaction, together with all of Crown's rights and obligations under the distribution agreement, including its indemnification obligations described above.

*The distribution agreement is attached to this joint proxy statement/prospectus as Annex E. Please refer to the distribution agreement for a complete description of the transactions described above.*

### **The Contribution Agreements**

In connection with the merger agreement, PREIT and PREIT Partnership entered into a contribution agreement and Crown Partnership and PREIT Partnership entered into a contribution agreement, each dated as of May 13, 2003. *The contribution agreements are attached to this joint proxy statement/prospectus as Annexes F and G. Please refer to the contribution agreements for a complete description of the transactions described below.*

#### ***PREIT Contribution Agreement***

The PREIT contribution agreement provides that, immediately after the closing of the merger and simultaneously with the Crown Partnership contribution transaction described below, PREIT will contribute to PREIT Partnership the proportionate interest in Crown Partnership's assets that were distributed to Crown under the distribution agreement described above (which assets PREIT will have succeeded to by virtue of the merger), and PREIT Partnership will assume the proportionate interest in Crown Partnership's liabilities that were assumed by Crown under the distribution agreement described above (which liabilities PREIT will have succeeded to by virtue of the merger). PREIT Partnership will also assume all of PREIT's obligations (as successor to Crown) assumed under the distribution agreement described above, including its indemnification obligations.

In consideration for this contribution, PREIT Partnership will issue to PREIT a number of Class A PREIT Partnership Units equal to the number of PREIT common shares issued in the merger and 2,475,000 newly-created 11% senior preferred units of PREIT Partnership ("Senior Preferred Units"), which corresponds to the number of PREIT preferred shares issued in the merger.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The consummation of this contribution transaction is conditioned upon the closing of the merger. The contribution agreement will automatically terminate in the event that the merger agreement is terminated.

### ***Crown Partnership Contribution Agreement***

The Crown Partnership contribution agreement provides that, immediately after the closing of the merger and simultaneously with the PREIT contribution transaction described above, Crown Partnership will contribute to PREIT Partnership the remaining interest in all of Crown Partnership's assets (excluding an 11% interest in the capital and a 1% interest in the profits of two partnerships that are wholly-owned by Crown and Crown Partnership, which partnerships own 14 of the Crown shopping malls) and PREIT Partnership will assume substantially all of Crown Partnership's remaining liabilities.

The excluded interests relating to those two partnerships will be subject to a put-call arrangement between Crown Partnership and PREIT Partnership. Under that put-call arrangement, PREIT Partnership will have the right to require Crown Partnership to contribute the excluded interests to PREIT Partnership following the 36th month after the closing of the merger and Crown Partnership will have the right to contribute the excluded interests to PREIT Partnership following the 40th month after the closing of the merger. In connection with the put-call arrangement, Crown Partnership has agreed not to transfer the excluded interests other than pursuant to the put or call, except that Crown Partnership is permitted to pledge the excluded interests to any existing or future lender pursuant to a

104

---

bona fide financing incurred upon customary commercial terms, provided that the excluded interests so pledged remain subject to the put-call arrangement. PREIT expects that the excluded interests will be pledged to certain banks that have made loans to Crown Investments Trust and Crown American Investment Company, the limited partners of Crown Partnership.

In consideration for this contribution transaction as a whole (including the excluded partnership interests subject to the put-call arrangement), PREIT Partnership will issue to Crown Partnership a number of Class B PREIT Partnership Units equal to approximately 0.2053 of a Class B PREIT Partnership Unit for each Crown Partnership Unit that remains outstanding following the Crown distribution transaction described above. See "Sale of Oak Ridge and Amendments to Crown Partnership Agreement and Support Agreement" on page 102.

A portion of such Class B PREIT Partnership Units will be allocated to the excluded partnership interests referenced above and, accordingly, will not be issued until exercise of the put or call to which those interests are subject. In addition, until such time as either the put or call is exercised, Crown Partnership will be entitled to receive a preferred return on the excluded partnership interests that approximates the return that Crown Partnership would have received on the number of Class B PREIT Partnership Units allocated to the excluded interests had the Class B PREIT Partnership Units been issued at the closing of the contribution transaction, with a cash adjustment at the time of the exercise of the put or call payable by either Crown Partnership or PREIT Partnership, as appropriate, to the other in an amount equal to the difference between the amount of the preferred return actually received by Crown Partnership and the amount that Crown Partnership would have actually received had it held that number of Class B PREIT Partnership Units from the closing of the contribution transaction through the date of exercise of the put or call, as applicable.

In addition, PREIT Partnership has agreed to indemnify Crown Partnership and its partners, officers, employees and agents against any losses incurred by any of them arising from the Crown Partnership liabilities assumed by PREIT Partnership under the contribution agreement or from certain other employment-related liabilities relating to Crown Partnership's employees (including any such losses arising from PREIT's failure to perform its obligations under the merger agreement with respect to employment matters).

The consummation of this contribution transaction is conditioned upon the closing of the merger. The contribution agreement will automatically terminate in the event that the merger agreement is terminated.

### **The PREIT and Crown Voting Agreements**

#### ***Mark E. Pasquerilla Voting Agreement***

Mark E. Pasquerilla, Crown Investments Trust and Crown American Investment Company have entered into a voting agreement with PREIT and PREIT Partnership pursuant to which they have agreed to vote all Crown common shares and all Crown Partnership Units owned of record by them or that they otherwise have the power to vote:



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

in favor of adoption of the merger agreement, approval of the merger and any other transactions contemplated thereby and the withdrawal of Crown as general partner of Crown Partnership; and

against approval or adoption of any action or agreement (other than the merger agreement or the transactions contemplated thereby) made or taken in opposition to or in competition with the merger.

As of the record date for the Crown special meeting, Mark E. Pasquerilla, Crown Investments Trust and Crown American Investment Company, in the aggregate, beneficially owned, excluding stock

105

---

options and Crown Partnership Units held by them, 3,129,625 Crown common shares, representing approximately 9.62% of the outstanding Crown common shares entitled to be voted at the Crown special meeting.

Other than with respect to securities that have been pledged to lenders prior to the date of the voting agreement, Mark E. Pasquerilla, Crown Investments Trust and Crown American Investment Company are prohibited from, directly or indirectly, selling, transferring, pledging, encumbering, assigning or otherwise disposing of all or any portion of Crown common shares or Crown Partnership Units owned by them without a written agreement from the transferee to be bound by the terms of the voting agreement. The voting agreement also prohibits Mark E. Pasquerilla, Crown Investments Trust and Crown American Investment Company from (1) granting any proxies with respect to any matters related to the merger transactions, (2) depositing any Crown common shares or Crown Partnership Units into a voting trust or entering into a voting agreement with respect to any matters related to the merger transactions, (3) taking any action that is intended to have the effect of preventing performance of their obligations under the voting agreement, and (4) soliciting or entering into any agreement related to an acquisition proposal or providing any confidential information relating to or that may reasonably be expected to lead to an acquisition proposal.

### *Voting Agreements of PREIT and Crown Executive Officers*

Each of the executive officers of Crown (other than Mark E. Pasquerilla, whose voting agreement is described above, and except for Messrs. Rusinak and Washko) has entered into a voting agreement with PREIT and PREIT Partnership and each of the executive officers of PREIT has entered into a voting agreement with Crown and Crown Partnership pursuant to which they have agreed to vote all Crown common shares and, as applicable, all Crown Partnership Units, and all PREIT common shares and, as applicable, all PREIT Partnership Units, owned of record, respectively, by each of them as of the record date of the Crown and PREIT special meetings, or that they otherwise have the power to vote:

in favor of adoption of the merger agreement and approval of the merger and any other transactions contemplated thereby; and

with respect to the executive officers of Crown, against approval or adoption of any action or agreement (other than the merger agreement or the transactions contemplated thereby) made or taken in opposition to or in competition with the merger and in favor of the withdrawal of Crown as general partner of Crown Partnership.

As of the record date for the Crown special meeting, such executive officers of Crown beneficially owned, excluding stock options and Crown Partnership Units held by them, 3,261,835 Crown common shares, representing approximately 10.03% of the outstanding Crown common shares entitled to be voted at the Crown special meeting. As of the record date for the PREIT special meeting, the executive officers of PREIT beneficially owned, excluding stock options and PREIT Partnership Units held by them, 448,099 PREIT common shares, representing approximately 1.91% of the outstanding PREIT common shares entitled to be voted at the PREIT special meeting.

Other than with respect to securities that have been pledged to lenders prior to the date of the voting agreement, each of the executive officers (other than Messrs. Rusinak and Washko) is prohibited from, directly or indirectly, selling, transferring, pledging, encumbering, assigning or otherwise disposing of all or any portion of the individual's Crown common shares and Crown Partnership Units, or PREIT common shares and PREIT Partnership Units, as applicable, without a written agreement from the transferee to be bound by the terms of the voting agreement. The voting agreements also prohibit these individuals from (1) granting any proxies with respect to any matters related to the merger transactions, (2) depositing any Crown common shares or Crown Partnership Units, or PREIT common shares or PREIT Partnership Units, as applicable, into a voting trust or entering into a voting agreement with

respect to any matters related to the merger transactions, (3) taking any action that is intended to have the effect of preventing performance of the individual's obligations under the voting agreement, and (4) soliciting or entering into any agreement related to an acquisition proposal or providing any confidential information relating to or that may reasonably be expected to lead to an acquisition proposal.

Those executive officers who entered into voting agreements on May 13, 2003, and who at such time owned outstanding PREIT Partnership Units, have entered into an agreement to clarify the definition of "Covered PREIT OP Units" in their voting agreements to eliminate any possible doubt that such PREIT Partnership Units are covered by their respective voting agreement and accordingly will be voted in favor of adoption of the merger agreement and approval of the merger and any other transactions contemplated thereby.

#### ***Voting Agreements of PREIT and Crown Independent Trustees***

Each of the independent trustees of Crown has entered into a voting agreement with PREIT and PREIT Partnership and each of the independent trustees of PREIT has entered into a voting agreement with Crown and Crown Partnership pursuant to which they have agreed to vote all Crown common shares and PREIT common shares owned of record, respectively, by each of them, as of the record date of the special meeting, or that they otherwise have the power to vote:

in favor of adoption of the merger agreement and approval of the merger and any other transactions contemplated thereby;  
and

with respect to the independent trustees of Crown, against approval or adoption of any action or agreement (other than the merger agreement or the transactions contemplated thereby) made or taken in opposition to or in competition with the merger.

As of the record date for the Crown special meeting, the independent trustees of Crown beneficially owned 88,296 Crown common shares, representing approximately 0.27% of the outstanding Crown common shares entitled to be voted at the Crown special meeting. As of the record date for the PREIT special meeting, the independent trustees of PREIT beneficially owned, excluding stock options held by them, 388,783 PREIT common shares, representing approximately 1.66% of the outstanding PREIT common shares entitled to be voted at the PREIT special meeting.

The voting agreements prohibit these individuals from (1) granting any proxies with respect to any matters related to the merger transactions, (2) depositing any Crown common shares or PREIT common shares, as applicable, into a voting trust or entering into a voting agreement with respect to any matters related to the merger transactions, (3) taking any action that is intended to have the effect of preventing performance of the individual's obligations under the voting agreement, and (4) soliciting or entering into any agreement related to an acquisition proposal or providing any confidential information relating to or that may reasonably be expected to lead to an acquisition proposal. The voting agreements for the independent trustees do not prohibit the sale, transfer, pledge, encumbrance, assignment or other disposition of all or any portion of the individual's Crown common shares or PREIT common shares, as applicable, and any person acquiring such common shares from the individual is not bound by the voting agreement. Based solely on PREIT's and Crown's review of filings made by the independent trustees with the Securities and Exchange Commission, since May 13, 2003 and up to and including September 1, 2003, the independent trustees of Crown have sold an aggregate of 436,200 Crown common shares as follows: Clifford A. Barton (30,000 shares); Donald F. Mazziotti (30,000 shares); Zachary L. Solomon (330,000 shares); and Peter J. Siris (46,200 shares). The sales of Crown common shares by Messrs. Barton and Mazziotti were in connection with the cashless exercise of Crown options held by such trustees.

#### ***Crown Independent Trustees Fees***

Crown's board of trustees approved certain fees for independent trustees at its regular meeting held on February 5, 2003, as later clarified at its regular meeting held on April 23, 2003. These fees were approved unanimously by the remaining members of the Crown board of trustees based on the substantial commitments of time and increased responsibilities of the independent trustees in connection with the merger. These fees include:

effective 2003, an annual retainer of \$36,000 payable in advance in the first quarter,

for the meetings prior to February 5, 2003, a fee of \$250 per meeting,

effective February 5, 2003, the fees for meetings, conference calls and other required work are \$250 per meeting if less than one hour and \$500 per meeting if greater than one hour, and

an additional one-time fee to the Chairman of the Special Committee of the Independent Trustees in the amount of \$50,000, and to each member of this committee in the amount of \$25,000, regardless of whether the merger is completed.

These fees are in addition to the existing compensation structure for Crown trustees, which includes a fee of \$1,000 for each board of trustees meeting or committee meeting, and a fee of \$500 for each non-board of trustees meeting or non-committee meeting conference call. Based on the foregoing schedule of fees, Crown's independent trustees have received aggregate payments as follows for the period commencing September 1, 2002 through September 19, 2003: Peter J. Siris \$289,093; Zachary L. Solomon \$109,065; Clifford A. Barton \$110,270; and Donald F. Mazziotti \$106,250.

108

---

## AGREEMENTS WITH MARK E. PASQUERILLA AND AFFILIATES

### The Shareholder Agreement

It is a condition of the merger that each of Mark E. Pasquerilla, Crown Partnership, Crown Investments Trust, Crown American Investment Company, and Crown Delaware Holding Company (which we refer to collectively below as the Pasquerilla group) enter into a shareholder agreement with PREIT and PREIT Partnership. Under this agreement, each member of the Pasquerilla group will agree as follows.

The Pasquerilla group will agree that

if any of the Pasquerilla group, during the two weeks following the closing date of the merger, transfer any of the PREIT securities received pursuant to the merger (which we refer to below as the covered PREIT securities);

if the Pasquerilla group and their permitted transferees (as defined below), considered collectively, transfer any of the covered PREIT securities during the nine months following the two week post-closing period other than (A) pursuant to Section 4 of the registration rights agreement (described below) or (B) in an amount that would not exceed or violate the volume limitations of Rule 144(e)(1) under the Securities Act (assuming the Pasquerilla group and their permitted transferees, taken together, are a single affiliate of PREIT);

if the Pasquerilla group and their permitted transferees, considered collectively, during the nine months following the two week post-closing period, transfer in the aggregate an

amount of the covered PREIT securities having an aggregate purchase price greater than an amount equal to \$16 million less the net proceeds of sale of the Oak Ridge Mall;

if the Pasquerilla group and their permitted transferees, considered collectively, during any of the five subsequent annual (12-month) periods commencing immediately following the nine-month initial period, transfer in the aggregate more than 20% of the covered PREIT securities (provided that if, during any subsequent annual period, the Pasquerilla group transfers less than 20% of the covered PREIT securities, then they will be permitted to carry over to the next annual period the amount by which the permitted 20% exceeds the actual amount transferred); or

if the Pasquerilla group and their permitted transferees, considered collectively, during the 60-month subsequent period commencing immediately following the nine-month initial period, transfer an amount of the covered PREIT securities that would exceed or violate the volume limitations of Rule 144(e)(1) under the Securities Act (assuming the Pasquerilla group and their permitted transferees, taken together, are a single affiliate of PREIT);

then the members of the Pasquerilla group will forfeit their right to the first \$25 million of payments due under the tax protection agreement. See " The Tax Protection Agreement" beginning on page 110.

However, if any transfer described above is by means of foreclosure with respect to covered PREIT securities pledged as permitted by the shareholder agreement, then Mark E. Pasquerilla may elect, in lieu of the above remedy regarding loss of tax protection, to resign his seat on PREIT's board of trustees and release PREIT from its obligations under the merger agreement with respect to his serving as a trustee of PREIT.

The Pasquerilla group and their permitted transferees will be permitted at any time to pledge, encumber or otherwise grant a security interest in any covered PREIT securities to any existing or future lender pursuant to a bona fide financing incurred for investment or other purposes upon customary commercial terms. However, immediately following a foreclosure by any lender,

109

---

the lender will cease to be a permitted transferee and the foreclosure will constitute a transfer other than to a permitted transferee under the shareholder agreement. Any lender who acquires covered PREIT securities pursuant to foreclosure under a pledge will not be bound by the terms of the shareholder agreement.

Regardless of any restrictions contained in the shareholder agreement, each member of the Pasquerilla group will be permitted to exercise its right to redeem any covered PREIT Partnership Units owned by it, subject to any restrictions imposed on redemption pursuant to PREIT Partnership's limited partnership agreement.

Any permitted transferee to whom any covered PREIT securities are transferred pursuant to the shareholder agreement will be subject to the terms and conditions of the shareholder agreement.

Under the shareholder agreement, permitted transferees include: (1) charitable institutions; (2) members of the immediate family of a security holder; (3) business entities controlled by a security holder and/or members of a security holder's immediate family; (4) if the security holder is a trust, beneficiaries of the trust; (5) if the security holder is a business entity, the partners or owners who owned interests in the entity on the date the entity acquired the covered PREIT securities and continue to own interests in the entity at the time of the proposed transfer; and (6) any lender to which any of the security holder's covered PREIT securities are pledged in accordance with the shareholder agreement (as discussed above) (provided that the lender will no longer be considered a permitted transferee following its foreclosure on the pledged covered PREIT securities).

### **The Tax Protection Agreement**

It is a condition of the merger that PREIT and PREIT Partnership enter into a tax protection agreement with Mark E. Pasquerilla, Crown Partnership, Crown Investments Trust, or Crown Investments, Crown American Investment Company, or CAIC, Crown Holding Company and Crown American Associates (to which we refer collectively below as the Pasquerilla unitholders). Under this agreement, the parties will agree as follows:

PREIT Partnership will agree that, during the period ending on the earlier of the eighth anniversary of the closing date of the merger or the first date on which the Pasquerilla unitholders beneficially own (as determined in accordance with Rule 13-d(3) of the Securities Exchange Act of 1934) in the aggregate less than 25% of the aggregate number of PREIT common shares and PREIT Partnership Units received pursuant to the merger and related transactions, it will not dispose of certain protected properties acquired in the merger.

This restriction will not apply to (1) exchanges pursuant to Section 1031 of the Internal Revenue Code and other tax-deferred or tax-free exchanges so long as no gain is recognized by the Pasquerilla unitholders, although the restrictions thereafter would apply to the property acquired in exchange for the relevant protected property, and (2) dispositions pursuant to which none of the Pasquerilla unitholders would be required to recognize any of the gain deferred at the time the property subject to the disposition was originally contributed to Crown Partnership.

If a property is transferred in violation of this transfer restriction, PREIT Partnership will owe damages to each affected Pasquerilla unitholder in an amount meant to approximate the following: (x) if the transfer occurs during the first five years of the protection period, the sum of the hypothetical tax owed by the Pasquerilla unitholder as a result of the transfer (computed without regard to any tax attributes of such unitholder) plus an amount intended to make the unitholder whole for taxes that may be due on the receipt of the payment of damages owed; (y) if the prohibited transfer occurs after the first five years of

110

---

the protection period but within eight years, the interest expense the unitholder would or does incur if the unitholder were to borrow money to pay the hypothetical tax owed from the time the unitholder is deemed under the agreement to be required to pay the tax until eight years after the closing date of the merger; or (z) if the transfer is an "installment sale" for federal income tax purposes, at PREIT Partnership's election, the amount described in clause (x) or (y) hereof (as applicable) or the sum of the amount that would be required to be paid to the affected unitholder pursuant to clause (x) or (y) hereof (as applicable) on an annual basis and taking into account the "installment sale" rules of the Internal Revenue Code plus the interest that must be paid on such amount as a result of the installment sale.

PREIT Partnership will agree, during the period ending on the fifth anniversary of the closing date of the merger or, if Crown Investments or CAIC so elects, for a period of 15 years from the date of closing, to make available to Crown Investments and CAIC the opportunity to make a "bottom guarantee" of qualifying debt of PREIT Partnership or a subsidiary up to a combined amount of \$250 million.

If the qualifying debt is repaid or becomes nonqualifying debt, PREIT Partnership will be required to offer an opportunity to the affected guarantor to guarantee additional qualifying debt and to provide written notice of the opportunity to the guarantor. If PREIT Partnership breaches its obligation to provide the guarantee opportunity during the required period, PREIT Partnership will owe, subject to certain limitations, damages to each affected guarantor in an amount meant to approximate the sum of the hypothetical tax owed by the guarantor as a result of the breach (computed without regard to any tax attributes of such guarantor) plus an amount intended to make the guarantor whole for taxes that may be due on the receipt of the payment of damages owed.

Following the expiration of the 15-year protection period, PREIT Partnership will be required to use commercially reasonable efforts to make available guarantee opportunities to Crown Investments and CAIC up to a certain amount. If PREIT Partnership fails to use commercially reasonable efforts, the exclusive remedy for Crown Investments and CAIC will be an action for specific performance, with no entitlement to monetary damages.

PREIT Partnership will agree to use the "traditional method" under Section 1.704-3(b) of the Treasury regulations to make allocations under Section 704(c) of the Internal Revenue Code with respect to each of the protected properties, with no "curative" or "remedial" allocations other than, to the extent permitted under Section 1.704-3(c) of the Treasury regulations, curative allocations of gain recognized on a disposition of an interest in any Crown property to offset the impact of the "ceiling rule" with respect to the applicable property.

PREIT Partnership will agree to provide notice to the Pasquerilla unitholders in the event the Internal Revenue Service challenges certain agreed-upon tax positions intended to benefit the Pasquerilla unitholders and to allow such unitholders and their tax advisors to participate in the tax controversy process. PREIT Partnership will agree not to settle or abandon the tax controversy process without the consent of the Pasquerilla unitholders unless specified conditions are met. As a general rule, PREIT Partnership will agree to bear the expense of defending any Internal Revenue Service challenge to these

agreed-upon tax positions, subject to certain exceptions.

PREIT Partnership will agree to bear one-half, and each of Crown Investments and CAIC, jointly and severally, will agree to bear the remaining one-half, of the aggregate cost of any realty transfer taxes or similar taxes (together with any penalties and interest) imposed by a Pennsylvania taxing authority as a result of the transfers of the excluded partnership interests in either of the two partnerships that are subject to the put-call arrangement described under

111

---

" The Contribution Agreements Crown Partnership Contribution Agreement" beginning on page 104.

### **The Indemnification Agreement**

Contemporaneously with the execution of the merger agreement, and as an inducement to PREIT and PREIT Partnership to consummate the merger, PREIT, PREIT Partnership, Crown Investments Trust, or Crown Investments, Crown American Investment Company, or CAIC, Mark E. Pasquerilla (who owns, directly or indirectly, 100% of the outstanding ownership interests in Crown Investments Trust, Crown American Investment Company and Crown Delaware Holding Company), and Crown Delaware Holding Company, as guarantor, entered into an indemnification agreement dated as of May 13, 2003, which provides for the following:

Subject to certain terms and conditions specified in the indemnification agreement, during the indemnity period (the period beginning on the closing date of the merger and ending on the second anniversary of the closing date of the merger), each of Crown Investments, on the one hand, and Crown Partnership and CAIC, on the other hand, will jointly and severally indemnify, defend and hold harmless PREIT, PREIT Partnership and each of their respective affiliates, employees, representative, agents, officers and trustees from, against and in respect of any claims sustained or suffered by such persons to the extent arising, directly or indirectly, in whole or in part, from or as a consequence of (in each case to the extent arising from or relating to the period between January 1, 2000 and the closing date of the merger):

the third amendment to the amended and restated cash flow support agreement dated March 31, 2003 between Crown Investments and Crown American Financing Partnership, L.P. or the fourth amendment to the amended and restated cash flow support agreement dated May 13, 2003 between Crown Investments, on the one hand, and Crown Partnership and Crown American Financing Partnership, L.P., on the other hand;

the agreement dated March 31, 2003 between Crown Investments and Crown Partnership pursuant to which Crown Investments purchased the Oak Ridge Mall from Crown Partnership;

the agreement of exchange entered into between Crown Investments and Crown Partnership concurrently with the execution of the indemnification agreement pursuant to which Crown Investments agreed to convey certain out-parcels to Crown Partnership in exchange for the conveyance of Pasquerilla Plaza by Crown Partnership to Crown Investments; or

any relationship or related transaction or series of related transactions entered into or modified since January 1, 2000, involving Crown or any Crown subsidiary, on the one hand, and Mark E. Pasquerilla or any of Crown Investments or CAIC, on the other hand, which fall within the matters described in Item 404 of Regulation S-K under the Securities Act of 1933, as in effect on May 13, 2003.

Unless the indemnification agreement is earlier terminated, the obligations of Crown Investments and CAIC to make indemnification payments under the indemnification agreement will terminate upon the second anniversary of the closing date of the merger, subject to certain specified exceptions where written notice of a claim has been asserted on or prior to that date;

The cumulative aggregate obligation of Crown Investments and CAIC to make indemnification payments under the indemnification agreement will not exceed \$6 million;

Regardless of certain restrictions in the shareholders agreement to be entered into by and among Mark E. Pasquerilla, Crown Partnership, Crown Investments, CAIC, Crown Delaware Holding Company, PREIT and PREIT Partnership, if necessary in order to make an

112

---

indemnification payment under the indemnification agreement, Crown Investments and CAIC are permitted to sell the minimum number of PREIT or PREIT Partnership securities necessary, when taken together with any other available funds of Crown Investments and CAIC, to make the indemnification payment;

Crown Delaware Holding Company, as guarantor, will assume all obligations of Crown Investments and CAIC to make indemnification payments under the indemnification agreement if any payment required to be made by either of them is not made within 30 days of when required to be made;

If, during the period beginning on May 13, 2003 and ending on the sixth anniversary of the effective time of the merger (unless the indemnification agreement has been terminated), Crown Investments completes the sale, transfer or alienation of all or substantially all of the shares, business or assets acquired by Crown Investments pursuant to the Oak Ridge agreement (other than a sale or transfer to an entity that is an affiliate of Crown Investments if the transferee assumes certain specified obligations of Crown Investments under the indemnification agreement), then Crown Investments will pay in cash to PREIT an amount equal to 90% of the Oak Ridge net proceeds of sale (the aggregate value of all consideration received by Crown Investments in connection with such sale less all associated direct costs and expenses) in excess of the Oak Ridge investment (which is approximately \$11.4 million plus certain specified additional investments, plus interest). The net proceeds received from the sale of the bulk of the Oak Ridge Mall on June 17, 2003 (as described above) were not sufficient to trigger this payment;

If, during the period beginning on May 13, 2003 and ending on the third anniversary of the effective time of the merger (unless the indemnification agreement has been terminated), Crown Investments completes the sale, transfer or alienation of all or substantially all of the shares, business or assets acquired by Crown Investments pursuant to the agreement of exchange (other than a sale or transfer to an entity that is an affiliate of Crown Investments if such transferee assumes certain specified obligations of Crown Investments under the indemnification agreement), then Crown Investments will pay in cash to PREIT an amount equal to 50% of the Pasquerilla Plaza net proceeds of sale (the aggregate value of all consideration received by Crown Investments in connection with such sale less all associated direct costs and expenses) in excess of the Pasquerilla Plaza investment (which is the appraised value of Pasquerilla Plaza plus certain specified additional investments, plus interest);

Mark E. Pasquerilla, Crown Investments and CAIC have agreed to certain covenants relating to the minimum value of their consolidated net assets during the indemnity period (and thereafter so long as certain claims remain unresolved); and

The indemnification agreement does not become effective until the effective time of the merger and will be terminated automatically if and at such time as the merger agreement is terminated.

### **The Non-Competition Agreement**

It is a condition of the merger that each of Mark E. Pasquerilla, Crown Partnership, Crown Investments Trust, Crown American Investment Company, and Crown Delaware Holding Company (which, along with their affiliates, except for PREIT and its affiliates, we refer to collectively below as the non-compete group) enter into a non-competition agreement with PREIT and PREIT Partnership Under the non-competition agreement, each member of the non-compete group will agree as follows:

During the eight year period beginning on the closing date of the merger, they will not

own, operate, invest in, acquire, construct, manage, develop, re-develop or lease shopping malls, shopping centers or multifamily real estate properties in excess of 10 units each, or

113

---

provide tenant services with respect thereto, competitive with the activities and/or services in which PREIT and its subsidiaries are engaged at the effective time of the merger, within 25 miles of any property owned by PREIT or Crown or any of their respective subsidiaries or through which PREIT or any of its subsidiaries may conduct business in the future; or

serve as an officer, director, partner, member, employee, consultant, contractor, joint venturer, or agent of, or own, directly or indirectly, any equity interest in any person or entity that engages the restricted activities described above.

However, the non-compete group may (1) make certain passive investments in entities engaged in the restricted activities described above, (2) own, operate, invest in, manage and re-develop Oak Ridge Mall and Pasquerilla Plaza; and (3) engage in activities directly related to the operation of hotels and convention centers.

During the eight year period beginning on the closing date of the merger, they will not solicit any tenant or former tenant (within the 12 months preceding the closing date of the merger) of the properties of PREIT or Crown or any of their respective subsidiaries for the purpose of inducing the tenant to alter or end its business relationship with PREIT or a subsidiary (or any successor through which PREIT or any of its subsidiaries may conduct business in the future).

During the eight year period beginning on the closing date of the merger, they will not solicit or recruit (1) any employee of PREIT or any of its subsidiaries or (2) any person who was an employee of PREIT or Crown or any of their respective subsidiaries at any time within the 12 months preceding the closing date of the merger for the purpose of causing the employee to leave the employment of PREIT or a subsidiary, with the exception of Crown employees who do not become employees of PREIT or one of its affiliates on the closing date of the merger, employees of Crown who are terminated after the merger, and employees of PREIT who are terminated by PREIT.

#### **The Standstill Agreement**

It is a condition of the merger that each of Mark E. Pasquerilla, Crown Partnership, Crown Investments Trust, Crown American Investment Company, Crown Delaware Holding Company, and Crown Holding Company (which we refer to collectively below as the standstill group) enter into a standstill agreement with PREIT and PREIT Partnership. Under the standstill agreement, each member of the standstill group will agree as follows:

Until eight years after the completion of the merger, or until the date on which Mark E. Pasquerilla is no longer a member of PREIT's board of trustees, whichever is later, the standstill group will not

acquire or propose or seek to acquire any securities or assets of PREIT or its subsidiaries (other than directly from PREIT or a subsidiary, or in the ordinary course of business without the purpose of acquiring control of PREIT), if the acquisition would cause the standstill group, in the aggregate, to beneficially own securities in excess of the sum of (1) the securities acquired by Mark E. Pasquerilla pursuant to the exercise of options, (2) 1% of the issued and outstanding voting or non-voting securities of PREIT, and (3) the number of securities acquired pursuant to PREIT's Dividend Reinvestment Plan (and provided that this restriction will not restrict any acquisition if, after giving effect to the acquisition, the standstill group would not, in the aggregate, beneficially own securities in excess of the ownership limit set forth in PREIT's trust agreement);



enter into or propose or seek to enter into any acquisition transaction or other business combination relating to all or part of PREIT or any of its subsidiaries, or the assets of all or

114

---

part of PREIT or any of its subsidiaries (except for certain permitted exceptions described below);

except to the extent the activity is solely related to Mark E. Pasquerilla's participation as a trustee of PREIT and the action is consistent with the recommendation of a majority of PREIT's board of trustees, (1) participate in any solicitation of proxies with respect to PREIT; (2) become a participant in an election contest with respect to PREIT; (3) advise, influence or encourage any person with respect to any voting securities of PREIT; (4) seek to alter the size or composition of PREIT's board; (5) demand a copy of PREIT's share ledger, list of shareholders or other books and records in connection with any such matters; or (6) call or attempt to call any meeting of the PREIT shareholders;

except to the extent the activity is solely related to Mark E. Pasquerilla's participation as a trustee of PREIT, (1) take any action with respect to PREIT or any of its subsidiaries which could require making a public announcement regarding any change in control or other extraordinary transaction involving PREIT or (2) seek or propose to influence or control PREIT's management or policies; or

enter into any discussions or arrangements regarding the foregoing activities, propose any such activities to any other person, or advise, assist or act as a financing source in connection with the foregoing activities.

However, so long as no member of the standstill group is in violation of the standstill agreement, the standstill agreement will not prevent each member from

voting any PREIT securities beneficially owned by it on any matter properly before the PREIT security holders for their consideration, or

participating in any tender or exchange offer that was previously approved by a majority of the members of PREIT's board of trustees.

The standstill agreement will automatically terminate upon the breach by PREIT of its obligations under the merger agreement with respect to Mark E. Pasquerilla's serving as a trustee of PREIT.

### **The Registration Rights Agreement**

It is a condition of the merger that PREIT will enter into a registration rights agreement with Mark E. Pasquerilla, Crown Investments Trust, or Crown Investments, Crown American Investment Company, or CAIC, Crown Delaware Holding Company, or CDHC, and Crown Partnership, which provides these persons with certain specified rights with respect to the registration under the Securities Act of the securities acquired by them in connection with the merger and the transactions contemplated thereby (including any PREIT common shares issuable upon redemption of any Class B PREIT Partnership Units). Under the terms of the registration rights agreement:

At any time after the closing of the merger, Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership may unanimously require PREIT to file one registration statement on Form S-3 at PREIT's expense with respect to the registrable securities held by them and PREIT is required to use commercially reasonable efforts to cause the registration statement to be declared effective and to keep the registration statement effective (except as provided below) until all securities covered by the registration rights agreement have been disposed of or are eligible to be sold without limitation as to amount or manner of sale;

If on the date five years and nine months after the date of the closing of the merger the registrable securities owned by Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership constitute at least 5% of PREIT's then outstanding shares (after giving effect to

certain redemptions), then, at any time beginning on such date, they are entitled to demand registration rights, pursuant to which upon their unanimous request they may require PREIT on one occasion to file a registration statement under the Securities Act at PREIT's expense with respect to their registrable securities. In order to preserve these demand registration rights, Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership must unanimously request within 30 days following the date that is five years and nine months after the date of the closing of the merger to preserve these rights, in which case their right to require PREIT to effect or keep effective a registration statement on Form S-3 described above will terminate. PREIT is required to use its commercially reasonable efforts to effect such registration;

If at any time during the nine month period beginning on the effective time of the merger, PREIT proposes to register any of its securities under the Securities Act, either for its own account or for the account of other security holders exercising registration rights, Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership are entitled to notice of the registration and are entitled to include their registrable securities (up to in the aggregate the participation threshold) in the registration at PREIT's expense;

Any reduction in the number of shares to be included in any registration (if required by the underwriters) will be made as follows: (1) first, all shares other than those to be included by PREIT for its own account or those proposed to be included by Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership, and (2) second, if necessary, the number of shares to be included by Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership will be reduced to 15% of the total number of shares to be included in the registration, with any reduction being made pro rata among Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership; and

For purposes of the registration rights agreement, "participation threshold" means the number of registrable securities having an aggregate proposed sales price of \$16 million less the sum of (A) the Oak Ridge Mall net proceeds of sale (the aggregate value of all consideration received by Mr. Pasquerilla, Crown Investments, CAIC, CDHC and Crown Partnership in connection with such sale less all associated direct costs and expenses and certain other amounts) and (B) the aggregate sales price of all registrable securities previously sold by the parties during the 9 month period beginning on the effective time of the merger; and

All of these registration rights are subject to customary conditions and limitations, among them the right of the underwriters in an offering to limit the number of shares included in the registration and restrictions on certain sales during specified periods.

**COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION**

PREIT common shares and Crown common shares are listed on the New York Stock Exchange under the symbols "PEI" and "CWN", respectively. The table sets forth, for the calendar quarters indicated, the dividends declared and the high and low sales prices for PREIT common shares and Crown common shares as reported on the New York Stock Exchange, based on published financial sources.

PREIT Common Shares			Crown Common Shares		
High	Low	Dividend Declared	High	Low	Dividend Declared

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

	PREIT Common Shares			Crown Common Shares			
<b>2001</b>							
First Quarter	\$ 22.36	\$ 18.94	\$ 0.51	\$ 6.95	\$ 5.25	\$ 0.2100	
Second Quarter	24.70	20.50	0.51	8.72	6.61	0.2100	
Third Quarter	25.05	18.25	0.51	8.70	6.60	0.2100	
Fourth Quarter	23.90	20.50	0.51	8.10	6.81	0.2100	
<b>2002</b>							
First Quarter	\$ 25.50	\$ 22.63	\$ 0.51	\$ 9.80	\$ 7.65	\$ 0.2125	
Second Quarter	27.20	24.90	0.51	10.40	8.61	0.2125	
Third Quarter	27.11	20.55	0.51	9.85	6.65	0.2125	
Fourth Quarter	26.45	22.52	0.51	9.60	7.95	0.2125	
<b>2003</b>							
First Quarter	\$ 28.80	\$ 24.70	\$ 0.51	\$ 9.90	\$ 8.87	\$ 0.2150	
Second Quarter	30.34	27.94	0.51	10.82	9.83	0.2150	
Third Quarter	33.45	29.80		11.93	10.50		

The following table presents the last reported sale price per PREIT common share and Crown common share, as reported on the New York Stock Exchange Composite Transaction reporting system on May 13, 2003, the last full trading day prior to the public announcement of the merger, and on September 30, 2003, the last trading day for which this information could be obtained prior to the date of this joint proxy statement/prospectus. The following table also presents the Crown common share equivalent based on the value of PREIT common shares on May 13, 2003, the last full trading day prior to the public announcement of the merger, and on September 30, 2003, the last full trading day for which this information could be obtained prior to the date of this joint proxy statement/prospectus multiplied by the 0.3589 exchange ratio.

Date	PREIT Common Shares	Crown Common Shares	Crown Common Share Equivalent
May 13, 2003	\$ 28.00	\$ 10.75	\$ 10.05
September 30, 2003	\$ 33.45	\$ 11.90	\$ 12.01

You are encouraged to obtain current market quotations for PREIT and Crown common shares.

**MATERIAL FEDERAL INCOME TAX  
CONSEQUENCES RELATING TO THE MERGER**

*The following discussion summarizes the material U.S. federal income tax consequences relating to the merger and the receipt in the merger of PREIT common shares and cash received in lieu of PREIT fractional shares by holders of Crown common shares and PREIT 11% preferred shares by holders of Crown 11% preferred shares. Because this is a summary that is intended to address only federal income tax consequences of the merger that will apply to all Crown and PREIT shareholders, it may not contain all of the information that may be important to you. As you review this discussion, you should keep in mind that:*

the tax consequences to you may vary depending on your particular tax situation;

you may be subject to special rules that are not discussed below if you are:

a tax-exempt organization;

a broker-dealer;

a trader in securities that elects to mark to market;

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

a person who holds Crown shares as part of a hedge, straddle or conversion transaction;

a person who acquired Crown shares pursuant to the exercise of employee stock options or otherwise as compensation;

a person who does not hold its Crown shares as a capital asset;

a person that has a functional currency other than the U.S. dollar;

a non-U.S. corporation, non-U.S. partnership, non-U.S. trust, non-U.S. estate, or individual who is not taxed as a citizen or resident of the United States, all of which may be referred to collectively as "non-U.S. persons;"

a trust;

an estate;

a regulated investment company;

a REIT;

an insurance company;

a bank or other financial institution;

a U.S. expatriate; or

otherwise subject to special tax treatment under the Internal Revenue Code;

this summary does not address state, local, or foreign tax considerations;

this summary does not address the tax consequences to Crown Partnership and PREIT Partnership unitholders;

this summary does not discuss the tax consequences to holders of Crown stock options or options to acquire Crown Partnership Units; and

this discussion is not intended to be, and should not be construed as, tax advice.

**You are urged both to review the following discussion and to consult with your own tax advisor to determine the effect of the merger on your individual tax situation, including any state, local or non-U.S. tax consequences.**

The information in this section is based on the current Internal Revenue Code, current, temporary and proposed regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the Internal Revenue Service, including its practices and policies as endorsed in private letter rulings, which are not binding on the Internal Revenue Service, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. Neither PREIT nor Crown has requested, or plans to request, any rulings from the Internal Revenue Service concerning the tax treatment of the merger. It is possible that the Internal Revenue Service would challenge the statements in this discussion, which do not bind the Internal Revenue Service or the courts and that a court would agree with the Internal Revenue Service.

**General.** The merger is intended to qualify as a "reorganization" under Section 368(a) of the Internal Revenue Code. The income tax consequences summarized below are based on the assumption that the merger will qualify as a reorganization. Hogan & Hartson L.L.P., counsel to PREIT, delivered an opinion to PREIT dated as of May 13, 2003 that the merger will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code. Reed Smith LLP, counsel to Crown, delivered an opinion to Crown dated as of May 13, 2003 that the merger will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code. The delivery of opinions of Hogan & Hartson L.L.P. and Reed Smith LLP reaffirming these opinions is a condition to the merger. The opinions of counsel rely on customary representations made by Crown and PREIT and applicable factual assumptions. If any of the factual assumptions or representations relied upon in the opinions of counsel is inaccurate, the opinions may not accurately describe the U.S. federal income tax treatment of the merger, and this discussion may not accurately describe the tax consequences of the merger.

**Federal Income Tax Consequences of the Merger to Crown Common Shareholders.** Crown common shareholders will receive 0.3589 PREIT common shares for each Crown common share exchanged in the merger, but will receive cash instead of fractional shares of PREIT. If the merger of Crown with and into PREIT constitutes a reorganization under Section 368(a) of the Internal Revenue Code, the merger will have the following federal income tax consequences to Crown common shareholders:

*Receipt of PREIT Common Shares.* A Crown common shareholder will not recognize gain or loss on the exchange of Crown common shares for PREIT common shares. A Crown common shareholder will have an aggregate tax basis in the PREIT common shares received equal to the shareholder's aggregate tax basis in his, her or its Crown common shares exchanged for such PREIT shares.

*Fractional Shares.* A Crown common shareholder that receives cash instead of a fractional PREIT common share will be treated as if the fractional share was received in the merger and then redeemed by PREIT. The Crown common shareholder generally will recognize capital gain or loss equal to the difference between the amount of cash received for the fractional share and the shareholder's basis in the fractional share. This capital gain or loss will be long-term capital gain or loss if the Crown shareholder's holding period in the Crown common shares is more than one year.

*Holding Period.* The holding period of the PREIT common shares received by a Crown common shareholder in the merger will include the holding period of the Crown common shares exchanged.

**Federal Income Tax Consequences of the Merger to Crown Preferred Shareholders.** Under the merger agreement, each outstanding share of Crown 11% preferred share will be converted into the right to receive one PREIT 11% preferred share. See "The Merger Agreement Merger Consideration" beginning on page 72. The merger will have the following federal income tax consequences to Crown preferred shareholders:

*Receipt of PREIT Preferred Shares.* A Crown preferred shareholder will not recognize gain or loss on the exchange of Crown 11% preferred shares for PREIT 11% preferred shares. A Crown preferred shareholder will have a tax basis in the PREIT 11% preferred shares received equal to the shareholder's tax basis in such shareholder's Crown 11% preferred shares exchanged for such PREIT 11% preferred shares.

*Holding Period.* The holding period of the PREIT 11% preferred shares received by a Crown preferred shareholder in the merger will include the holding period of the Crown 11% preferred shares exchanged.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

**Backup Withholding.** Backup withholding tax at a rate of 28% may apply to cash paid in the merger in lieu of fractional shares to a Crown common shareholder. Backup withholding will not apply, however, if the shareholder:

furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding on Internal Revenue Service Form W-9, or an appropriate substitute form;

provides a certificate of foreign status on Internal Revenue Service Form W-8BEN, or an appropriate substitute form; or

is otherwise exempt from backup withholding.

The Internal Revenue Service may impose a penalty upon any taxpayer that fails to provide the correct taxpayer identification number. Any amount withheld under the backup withholding rules may be allowed as a refund or a credit against the shareholder's federal income tax liability provided that the shareholder furnishes required information to the Internal Revenue Service.

**Federal Income Tax Consequences to Crown.** Crown will not recognize any gain or loss as a result of the merger if the merger qualifies as a reorganization under Section 368(a) of the Internal Revenue Code and Crown qualifies as a "real estate investment trust," or "REIT," at the time of the merger.

**Federal Income Tax Consequences of the Merger to Crown and Crown Shareholders If the Merger Did Not Qualify as a Reorganization.** Opinions of counsel to PREIT and counsel to Crown dated as of May 13, 2003 that the merger will qualify as a reorganization for federal income tax purposes have been delivered. The delivery of opinions of counsel to PREIT and counsel to Crown reaffirming these opinions is a condition to the merger, but these opinions will not be binding upon the Internal Revenue Service or the courts.

If the merger failed to qualify as a reorganization, then a Crown shareholder would recognize gain or loss, as applicable, equal to the difference between:

the aggregate fair market value of the PREIT common shares and PREIT 11% preferred shares received in the merger plus any cash received instead of fractional shares; and

the shareholder's adjusted tax basis in its Crown shares.

If the merger failed to qualify as a reorganization, so long as Crown qualified as a REIT at the time of the merger, Crown would not incur a tax liability so long as Crown makes distributions (which would be deemed to include for these purposes the fair market value of the PREIT common shares and PREIT 11% preferred shares issued pursuant to the merger) to Crown's shareholders in an amount at least equal to the net gain on the deemed transfer of its assets to PREIT. If Crown failed to make sufficient distributions and a tax liability resulted, the liability for any such tax would transfer to PREIT as a result of the merger.

If the merger failed to qualify as a reorganization and Crown did not qualify as a REIT at the time of the merger, Crown would generally recognize gain or loss on the deemed transfer of its assets to PREIT and PREIT, as its successor, would incur a very significant current tax liability.

**Federal Income Tax Consequences to PREIT and Its Shareholders.** PREIT and its shareholders will not recognize any gain or loss as a result of the merger, whether or not the merger qualifies as a reorganization under Section 368(a) of the Internal Revenue Code. However, as explained above, if the merger does not qualify as a reorganization under Section 368(a) of the Internal Revenue Code, certain tax liabilities of Crown would be transferred to PREIT.

**REIT Qualification of PREIT and Crown.** Reed Smith LLP, counsel to Crown, delivered an opinion to PREIT dated as of May 13, 2003 that, commencing with Crown's taxable year ended December 31, 1993, Crown was organized and has operated in conformity with the

requirements for qualification as a REIT. The delivery of an opinion of Reed Smith LLP reaffirming this opinion is a condition to the merger. These opinions, however, will not be binding on the Internal Revenue Service or the courts. These opinions rely on customary representations made by Crown about factual matters relating to the organization and operation of Crown, Crown Partnership and their subsidiaries. In addition, these opinions are based on factual representations of Crown concerning its business and properties as set forth in this joint proxy statement/prospectus and the other documents incorporated by reference in this joint proxy statement/prospectus. If Crown did not qualify as a REIT in one or more of its prior tax years, Crown would be liable for, and, as successor to Crown in the merger, PREIT would be obligated to pay, any federal income tax on its income earned in any year that it did not qualify as a REIT. In addition, if Crown were to fail to qualify as a REIT, PREIT would be subject to tax if, during the ten years following the merger, PREIT disposed of any asset that was acquired from Crown in the merger. In this event, PREIT would generally be subject to tax at the highest regular corporate rate on the built-in gain, if any, that existed with respect to such asset at the time of the merger.

Drinker Biddle & Reath LLP, counsel to PREIT, delivered an opinion to PREIT and Crown dated as of May 13, 2003 that, commencing with PREIT's taxable year ended December 31, 1997, PREIT was organized and has operated in conformity with the requirements for qualification as a REIT, and that, after giving effect to the merger, PREIT's organization and proposed method of operation will enable it to continue to qualify as a REIT. The delivery of an opinion of Drinker Biddle & Reath LLP reaffirming this opinion is a condition to the merger. These opinions rely upon customary representations made by PREIT about factual matters relating to the organization and operation of PREIT, PREIT Partnership and their subsidiaries. In addition, these opinions are based upon factual representations of PREIT concerning its business and properties as set forth in this joint proxy statement/prospectus and the other documents incorporated by reference in this joint proxy statement/prospectus. Finally, the portion of the Drinker Biddle & Reath LLP opinion that addresses the qualification of PREIT as a REIT following the merger will be based in part upon the opinion of Reed Smith LLP described above relating to the qualification of Crown as a REIT at the closing of the merger and the representations made by Crown in connection with the Reed Smith LLP opinion. If Crown did not qualify as a REIT at the time of the merger, PREIT could fail to qualify as a REIT after the merger.

PREIT intends to continue to operate in a manner so as to qualify as a REIT following the merger, but there is no guarantee that PREIT will qualify or remain qualified as a REIT. Qualification and taxation as a REIT depend upon PREIT's ability to meet, through actual annual, or, in some cases, quarterly, operating results, requirements relating to income, asset ownership, distribution levels and diversity of share ownership, and the various REIT qualification requirements imposed under the Internal Revenue Code. Drinker Biddle & Reath will not review PREIT's compliance with these tests on a continuing basis. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in the circumstances of PREIT, PREIT cannot guarantee that its actual operating results will satisfy the requirements for taxation as a REIT under the Internal Revenue Code for any particular tax year. See "Federal Income Tax Considerations to PREIT Shareholders" beginning on page 123 for a discussion of the tax considerations that may be material to a holder of PREIT shares, including Crown shareholders who acquire PREIT shares in the merger.

121

---

#### **MATERIAL FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE PRE-MERGER DIVIDEND**

Under the merger agreement, Crown may declare a dividend to its shareholders shortly before the merger equal to the minimum amount necessary for Crown to satisfy the REIT distribution requirements under Section 857(a)(1) of the Internal Revenue Code and to avoid the payment of tax with respect to any undistributed income for Crown's short taxable year ending at the time of the merger. Section 857(a)(1) requires a REIT to distribute to its shareholders each taxable year an amount equal to 90% of its "REIT taxable income." In addition, a REIT is required to pay tax on certain income that it does not distribute to its shareholders, even if it satisfies the 90% distribution requirement. If Crown pays a pre-merger dividend, PREIT will be entitled to declare a dividend to its common shareholders in an amount per share equal to the amount per share of the pre-merger dividend paid by Crown, divided by the exchange ratio of 0.3589 provided in the merger agreement. Any pre-merger dividends paid to Crown and PREIT shareholders will not be part of the cash consideration paid in the merger and will be taxed in the same manner as other dividends paid by Crown and PREIT.

122

---

#### **FEDERAL INCOME TAX CONSIDERATIONS TO PREIT SHAREHOLDERS**

*The following discussion summarizes the federal income tax considerations that may be material to an owner of shares of PREIT, including Crown shareholders who acquire PREIT shares in the merger. Drinker Biddle & Reath LLP, PREIT's counsel, has provided an opinion letter to PREIT with respect to the discussion set forth below under this heading "Federal Income Tax Considerations to PREIT Shareholders," and the*

*opinion is included as an exhibit to the registration statement of which this proxy statement/prospectus is a part. The following discussion, which is not exhaustive of all possible tax considerations, does not give a detailed discussion of any state, local or foreign tax considerations; nor does it discuss all of the aspects of federal income taxation that may be relevant to a prospective shareholder in light of his or her particular circumstances or to certain types of shareholders (including, but not limited to, (1) insurance companies, (2) tax-exempt entities, (3) financial institutions, (4) broker-dealers, (5) foreign corporations, (6) persons who are not citizens or residents of the United States, (7) trusts, estates, regulated investment companies, other REITs, financial institutions, or S corporations, (8) persons subject to the alternative minimum tax, (9) persons holding their shares as part of a hedge, straddle, conversion or other risk-reduction or constructive sale transaction, (10) persons holding the shares through a partnership or similar pass-through entity, (11) persons with a "functional currency" other than the U.S. dollar, (12) U.S. expatriates and (13) persons who do not hold the shares as a capital asset) who are subject to special treatment under the federal income tax laws.*

**THIS DISCUSSION IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, TAX ADVICE. EACH SHAREHOLDER OF PREIT AND CROWN IS ADVISED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO HIM OR HER OF THE OWNERSHIP OF SHARES IN AN ENTITY ELECTING TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES AND POTENTIAL CHANGES IN APPLICABLE TAX LAWS.**

### **Taxation of PREIT**

**General.** If PREIT qualifies for taxation as a REIT, it generally will not be subject to federal corporate income taxes on net income that it currently distributes to shareholders but PREIT's shareholders will generally be taxed on dividends that they receive at ordinary income rates other than dividends designated by PREIT as capital gain dividends or qualified dividend income. This differs from non-REIT C corporations, which generally are subject to federal corporate income taxes but whose individual stockholders are currently taxed on dividends they receive at capital gains rates. In general, income earned by a REIT and distributed to its shareholders will be subject to less federal income taxation than if such income were earned by a non-REIT C corporation, subjected to corporate income tax, and then distributed to shareholders and subjected to tax at capital gain rates.

While PREIT is generally not subject to corporate income taxes on income that PREIT distributes currently to shareholders, PREIT will be subject to federal income tax as follows:

1. PREIT will be taxed at regular corporate rates on any "REIT taxable income." REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.
2. PREIT may be subject to the "alternative minimum tax" due to PREIT's undistributed items of tax preference and alternative minimum tax adjustments, if any.
3. If PREIT has net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business, or other nonqualifying income from foreclosure property, PREIT will be subject to tax at the highest corporate rate on this income.

123

---

4. PREIT's net income from "prohibited transactions" will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

5. If PREIT fails to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because other requirements are met, PREIT will be subject to a tax equal to the gross income attributable to the greater of (1) the amount by which 75% of PREIT's gross income exceeds the amount qualifying under the 75% test for the taxable year or (2) the amount by which 90% of PREIT's gross income exceeds the amount of PREIT's income qualifying under the 95% test for the taxable year, multiplied in either case by a fraction intended to reflect PREIT's profitability.

6. PREIT will be subject to a 4% excise tax on the excess of the required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid, if PREIT fails to distribute during each calendar year (taking into account excess distributions from prior years) at least the sum of:



85% of PREIT's REIT ordinary income for the year,

95% of PREIT's REIT capital gain net income for the year, and

any undistributed taxable income from prior taxable years.

7. PREIT will be subject to a 100% penalty tax on amounts received by PREIT (or on certain expenses deducted by a taxable REIT subsidiary) if certain arrangements among PREIT, its tenants and/or a taxable REIT subsidiary of PREIT, as further described below, are not comparable to similar arrangements among unrelated parties.

8. If PREIT acquires any assets from a taxable C corporation in a carry-over basis transaction, PREIT could be liable for specified tax liabilities inherited from that C corporation with respect to that corporation's "built-in gain" in its assets. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time PREIT acquired the asset. Applicable Treasury regulations, however, allow PREIT to avoid the recognition of gain and the imposition of corporate level tax with respect to built-in gain asset acquired in a carry-over basis transaction from a C corporation unless and until PREIT disposes of that built-in gain asset during the 10-year period following its acquisition, at which time PREIT would recognize, and would be subject to tax at the highest regular corporate rate on, the built-in gain.

If PREIT is subject to taxation on its REIT taxable income or is subject to tax due to the sale of a built-in gain asset that was acquired in a carry-over basis from a C corporation, some of the dividends PREIT pays to its shareholders during the following year may be subject to tax at the reduced capital gains rates, rather than taxed at ordinary income rates.

In addition, notwithstanding PREIT's status as a REIT, PREIT may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for federal income tax purposes. Moreover, each of PREIT's taxable REIT subsidiaries (as further described below) is subject to federal corporate income tax on its net income.

**Requirements for Qualification.** The Internal Revenue Code defines a REIT as a corporation, trust or association (1) that is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares of stock, or by transferable certificates of beneficial interest; (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code; (4) that is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code; (5) the beneficial ownership of which is held by 100 or more persons; (6) that during the last half of each taxable year (other than the first taxable year for which an election to become a REIT is made) not more than 50% in value of the outstanding shares (after

124

---

taking into account options to acquire shares) of which are owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities); (7) that makes an election to be a REIT for the current taxable year or has made such an election for a previous taxable year which has not been terminated or revoked; and (8) that meets certain other tests, described below, regarding the nature of its income and assets. The Internal Revenue Code provides that conditions (1) through (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months other than the first taxable year for which an election to become a REIT is made. PREIT's trust agreement contains certain restrictions regarding the transfers of its shares and provides certain disclosure requirements for 1% or greater shareholders that are intended to assist PREIT in continuing to satisfy the share ownership requirements described in (5) and (6) above. These restrictions, however, may not ensure that PREIT will be able to satisfy these share ownership requirements. If PREIT fails to satisfy these ownership requirements, PREIT will fail to qualify as a REIT.

In addition, PREIT must satisfy all relevant filing and other administrative requirements established by the Internal Revenue Service that must be met to elect and maintain REIT status, use a calendar year for federal income tax purposes, and comply with the record keeping requirements of the Internal Revenue Code and regulations promulgated thereunder.

To qualify as a REIT, PREIT cannot have at the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year.

A REIT is permitted to have a wholly owned subsidiary (which, if not a "taxable REIT subsidiary," is referred to as a "qualified REIT subsidiary"). A qualified REIT subsidiary is not treated as a separate entity for federal income tax purposes. Rather, all of the assets, liabilities

and items of income, deductions and credit of a qualified REIT subsidiary are treated as if they were those of the REIT. A qualified REIT subsidiary is not subject to federal corporate income taxation, although it may be subject to state and local taxation in some states.

A REIT is also generally permitted to own any percentage of the stock of a "taxable REIT subsidiary", provided that the aggregate value of the REIT's interests in taxable REIT subsidiaries does not exceed 20% of the value of the REIT's gross assets and the aggregate value of the REIT's interests in its taxable REIT subsidiaries and the securities of other issuers does not exceed 25% of the value of the REIT's gross assets. Provided that certain limitations on operating activities are satisfied, an entity that is taxable as a corporation and is wholly or partially owned by a REIT will qualify as a "taxable REIT subsidiary" if both the REIT and the subsidiary so elect. In addition, if one of PREIT's taxable REIT subsidiaries owns, directly or indirectly, securities representing more than 35% of the vote or value that is taxable as a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary of PREIT. A taxable REIT subsidiary is subject to federal income tax, and state and local income tax where applicable, as a regular C corporation. If dividends are paid by one or more of PREIT's taxable REIT subsidiaries to PREIT, then dividends from PREIT to its shareholders, up to the amount of dividends PREIT received from its taxable REIT subsidiaries, will generally be eligible to be subject to tax at reduced capital gains rates, rather than taxed at ordinary income rates.

A REIT is deemed to own its proportionate share of the assets of a partnership in which it is a partner and is deemed to receive its proportionate share of the income of the partnership. Thus, PREIT's proportionate share of the assets, liabilities and items of income of PREIT Partnership and each of the real estate partnerships or other pass-through entities in which PREIT Partnership holds an interest, which we refer to as the Title Holding Partnerships, will be treated as assets, liabilities and items of income of PREIT for purposes of applying the requirements described herein, provided that PREIT Partnership and the Title Holding Partnerships are treated as partnerships for federal income tax purposes.

**Income Tests.** To maintain its qualification as a REIT, a REIT must satisfy two gross income requirements each year. First, at least 75% of the REIT's gross income (excluding gross income from prohibited transactions) for each year must be derived directly or indirectly from investments in real property or mortgages on real property (including "rents from real property" and, in certain circumstances, interest) or from certain types of temporary investments. Second, at least 95% of the REIT's gross income (excluding gross income from prohibited transactions) for each year must be derived from the same items that qualify under the 75% income test, and from dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing.

Rents received by PREIT will qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if several conditions are met. These conditions relate to the identity of the tenant, the computation of the rent payable, and the nature of the property leased. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on a fixed percentage of percentages of receipts or sales. Second, rents PREIT receives from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT subsidiary, at least 90% of the property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant. Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

PREIT does not anticipate receiving rents that fail to meet these conditions in amounts that, together with other types of nonqualifying income earned by PREIT, would cause PREIT to fail to satisfy the gross income tests.

In addition, for rents received to qualify as "rents from real property," PREIT generally must not furnish or render more than a *de minimis* amount of services to tenants, other than through an "independent contractor" from whom PREIT derives no revenue or a taxable REIT subsidiary. The "independent contractor" requirement, however, does not apply to the extent the services provided by PREIT are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant." If the impermissible tenant service income (which is the greater of the amount actually received from an impermissible service to tenants or 150% of the cost of such service) that PREIT receives with respect to a property exceeds 1% of PREIT's total income from that property, then all of the income from that property will fail to qualify as rents from real property. Although PREIT-RUBIN, which, together with PREIT Services, LLC, comprise PREIT's commercial property development and management business, renders services with respect to rental properties of PREIT Partnership and the Title Holding Partnerships, and PREIT-RUBIN does not constitute an "independent contractor" for this purpose, PREIT believes that the services being provided by PREIT-RUBIN with respect to these properties in past years have been usual or customary and should not otherwise be considered "rendered to the occupant." Moreover, for years beginning after December 31, 2000, PREIT and PREIT-RUBIN have elected for PREIT-RUBIN to be treated as a taxable REIT subsidiary. PREIT believes that the aggregate amount of any nonqualifying income in any taxable year earned by PREIT Partnership and the Title Holding Partnerships has not caused, and will not cause, PREIT to exceed the limits on nonqualifying income under the 75% and 95% gross income tests.

PREIT Partnership owns all of the outstanding shares of PREIT-RUBIN. As a taxable REIT subsidiary, PREIT-RUBIN is taxable as a regular corporation. PREIT-RUBIN performs management, development and leasing services for PREIT Partnership and other real estate owned in whole or in

part by third parties. The third-party income earned by and taxed to PREIT-RUBIN would be nonqualifying income if earned directly by PREIT. As a result of the corporate structure, all third-party and other services income will be earned by and taxed to PREIT-RUBIN at applicable federal and state corporate income tax rates and will be received by PREIT only indirectly as dividends, after reduction by these taxes. Such dividends will be qualifying income under the 95% test but will not be qualifying income for purposes of the 75% test.

From time to time, PREIT may enter into hedging transactions with respect to one or more of its assets or liabilities, including interest rate swap or cap agreements, options, futures contracts, or similar financial instruments. To the extent that such financial instruments are entered into to reduce the interest rate risk with respect to any indebtedness incurred or to be incurred to acquire or carry real estate assets, any periodic payments or gains from disposition are treated as qualifying income for purposes of the 95% gross income test. If, however, part or all of the indebtedness were incurred for other purposes, then part or all of the income would be non-qualifying income for purposes of both gross income tests. PREIT intends to structure any hedging transactions in a manner that does not jeopardize its status as a REIT.

If PREIT fails to satisfy one or both of the 75% and 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for that year if it is entitled to relief under the Internal Revenue Code. It is not possible, however, to state whether in all circumstances PREIT would be entitled to the benefit of these relief provisions. Even if these relief provisions were to apply, however, a tax would be imposed with respect to the "excess net income" attributable to the failure to satisfy the 75% and 95% gross income tests.

**Asset Tests.** PREIT, at the close of each quarter of its taxable year, must satisfy several tests relating to the nature of its assets: (1) at least 75% of the value of PREIT's total assets must be represented by "real estate assets," cash, cash items and government securities; (2) not more than 25% of PREIT's total assets may be represented by securities other than those in the 75% asset class; (3) of the investments included in the 25% asset class (other than shares of a taxable REIT subsidiary or a qualified REIT subsidiary), the value of any one issuer's securities owned by PREIT may not exceed 5% of the value of PREIT's total assets, and PREIT may not own more than 10% of the vote or value of any one issuer's outstanding securities; and (4) not more than 20% of PREIT's total assets may be represented by the securities of one or more taxable REIT subsidiaries.

Securities, for purposes of the asset tests, may include debt PREIT holds from other issuers. However, debt PREIT holds in an issuer will not be taken into account for purposes of the 10% value test if the debt securities meet the "straight debt" safe harbor and either (1) the issuer is an individual, (2) the only securities of the issuer that PREIT holds are straight debt or (3) if the issuer is a partnership, PREIT holds at least a 20 percent profits interest in the partnership. Debt will meet the "straight debt" safe harbor if the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, the debt is not convertible, directly or indirectly, into stock, and the interest rate and the interest payment dates of the debt are not contingent on profits, the borrower's discretion or similar factors.

PREIT believes that it has complied, and anticipates that it will continue to comply, with these asset tests. PREIT is deemed to hold directly its proportionate share of all real estate and other assets of PREIT Partnership and all assets deemed owned by PREIT Partnership through its ownership of partnership interests in other partnerships. As a result, PREIT believes that more than 75% of its assets are real estate assets. In addition, PREIT does not plan to hold any securities other than securities in a qualified REIT subsidiary or taxable REIT subsidiary of PREIT representing more than 10% of the vote or value of any one issuer's common stock, or securities of any one issuer the value of which exceeds 5% of the value of PREIT's gross assets. Further, PREIT does not plan to hold securities of taxable REIT subsidiaries that, in the aggregate, exceed 20% of the total value of PREIT's

assets. As previously discussed, PREIT is deemed to own its proportionate share of the assets of a partnership in which it is a partner so that the partnership interest, itself, is not a security for purposes of this asset test.

After initially meeting the asset tests at the close of any quarter, PREIT will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. PREIT intends to maintain adequate records of the value of its assets to ensure compliance with the asset tests, and to take

any other action within 30 days after the close of any quarter as may be required to cure any noncompliance. No assurance can be given, however, that this other action will always be successful.

**Annual Distribution Requirements.** To qualify as a REIT, PREIT generally must distribute to its shareholders each year at least 90% of its REIT taxable income (computed without the dividends paid deduction and excluding net capital gains) and 90% of PREIT's net income after tax, if any, from foreclosure property, minus the sum of certain items of noncash income. Distributions must generally be made during the taxable year to which they relate. Distributions may be made in the following year in two circumstances. First, if PREIT declares a dividend in October, November, or December of any year with a record date in one of these months and pays the dividend on or before January 31 of the following year, PREIT will be treated as having paid the dividend on December 31 of the year in which the dividend was declared. Second, distributions may be made in the following year if the dividends are declared before PREIT timely files its tax return for the year and if made before the first regular dividend payment made after such declaration. To the extent that PREIT does not distribute all of its net capital gain or distributes at least 90%, but less than 100% of its REIT taxable income, as adjusted, PREIT will be subject to tax on the undistributed amounts at regular corporate tax rates.

In addition, PREIT may be subject to a 4% nondeductible excise tax on the excess of the required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid if PREIT fails to distribute during a calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year) at least the sum of (1) 85% of PREIT's REIT ordinary income for such year, (2) 95% of PREIT's REIT capital gain net income for such year, and (3) any undistributed taxable income from prior periods.

PREIT may elect to retain rather than distribute all or a portion of its net capital gains and pay the tax on the gains. In that case, PREIT may elect to have its shareholders include their proportionate share of the undistributed net capital gains in income as long-term capital gains and receive a credit for their share of the tax paid by PREIT. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed.

PREIT believes that it has made, and expects to continue to make, timely distributions sufficient to satisfy the annual 90% distribution requirement. It is possible, however, that PREIT, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement and to avoid all corporate-level taxes. In that event, PREIT may arrange for short-term, or possibly long-term, borrowing (by itself or by PREIT Partnership) to meet the 90% distribution requirement and avoid the corporate-level taxes.

Under some circumstances, PREIT may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to shareholders in a later year, which may be included in PREIT's deduction for dividends paid for the earlier year. Thus, PREIT may be able to avoid being taxed on amounts distributed as deficiency dividends. However, PREIT will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

128

---

**Failure to Qualify.** If PREIT fails to qualify for taxation as a REIT in any taxable year, PREIT will be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. If PREIT fails to qualify as a REIT, it will not be required to make any distributions to its shareholders and any distributions that are made will not be deductible by PREIT. As a result, PREIT's failure to qualify as a REIT would significantly reduce both the cash available for distributions by PREIT to its shareholders and its earnings. In addition, if PREIT fails to qualify as a REIT, all distributions to shareholders, to the extent of PREIT's current and accumulated earnings and profits, will be taxable as regular corporate dividends, which means that shareholders taxed as individuals currently would be taxed on those dividends at capital gains rates and corporate shareholders generally would be entitled to a dividends received deduction with respect to such dividends. Unless entitled to relief under specific statutory provisions, PREIT also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances PREIT would be entitled to this statutory relief.

**Limitations Applicable to Taxable REIT Subsidiaries.** Certain provisions of the Internal Revenue Code are designed to curtail a REIT's ability to minimize the taxable income of any taxable REIT subsidiary, such as PREIT-RUBIN. A 100% tax will apply to any excessive interest expense or other deductions paid by a taxable REIT subsidiary to the REIT and to any amounts by which the taxable REIT subsidiary undercharges tenants of the REIT. Also, there are limitations on the deductibility of interest by highly leveraged taxable REIT subsidiaries.

#### **Income Taxation of PREIT Partnership, the Title Holding Partnerships and their Partners**

The following discussion summarizes certain federal income tax considerations applicable to PREIT's investment in PREIT Partnership and the Title Holding Partnerships:

**Classification of PREIT Partnership and Title Holding Partnerships as Partnerships.** PREIT will be entitled to include in its income its distributive share of the income and to deduct its distributive share of the losses of PREIT Partnership (including PREIT Partnership's share of the income or losses of the Title Holding Partnerships) only if PREIT Partnership and the Title Holding Partnerships (collectively, the "Partnerships") are classified for federal income tax purposes as partnerships rather than as associations taxable as corporations. The Partnerships have not elected, and do not intend to elect, to be taxable for federal income tax purposes as corporations. Accordingly, under applicable "check-the-box" regulations, they should be classified as partnerships for federal income tax purposes.

**Partnership Allocations.** Although a partnership agreement generally will determine the allocation of income and losses among partners, the allocations will be disregarded for tax purposes under Section 704(b) of the Internal Revenue Code if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder as to substantial economic effect and other requirements.

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to the item. PREIT Partnership's allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder.

**Tax Allocations With Respect to Contributed Properties.** The properties contributed directly or indirectly to PREIT Partnership have generally been appreciated as of the time of contribution, and it is likely that properties contributed in the future will also be appreciated. Under Section 704(c) of the Internal Revenue Code, items of income, gain, loss and deduction attributable to appreciated or

depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner so that the contributor is charged with or benefits from the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of the property at the time of contribution. The partnership agreements of the Partnerships require allocations of income, gain, loss and deduction attributable to the contributed property to be made in a manner that is consistent with Section 704(c) of the Internal Revenue Code. If the Partnerships sell contributed property at a gain or loss, the gain or loss will be allocated to the contributing partner(s) generally to the extent of the precontribution unrealized gain or loss.

**Depreciation.** The Partnerships' assets other than cash consist largely of appreciated property contributed by its partners. Assets contributed to a partnership in a tax-free transaction carry over their depreciation schedules. Accordingly, PREIT Partnership's depreciation deductions for its real property are based largely on the historic depreciation schedules for the properties. The properties are being depreciated over a range of 15 to 40 years using various methods of depreciation which were determined at the time that each item of depreciable property was placed in service. Any real property purchased by the Partnerships will be depreciated over at least 39 years, except that residential buildings will be depreciated over 27.5 years, and land is nondepreciable. In certain instances where a partnership interest rather than real estate is contributed to the Partnership, the real estate may not carry over its depreciation schedule but rather may, similarly, be subject to the lengthier depreciation period.

Section 704(c) of the Internal Revenue Code requires that depreciation as well as gain and loss be allocated in a manner so as to take into account the variation between the fair market value and tax basis of the property contributed. Depreciation with respect to any property purchased by PREIT Partnership subsequent to the admission of its partners, however, will be allocated among the partners in accordance with their respective percentage interests in the Partnerships.

**Sale of Partnership Property.** Generally, any gain realized by a partnership on the sale of property held by the partnership for more than one year will be long-term capital gain, except for any portion of the gain that is treated as depreciation or cost recovery recapture. However, under the REIT requirements, PREIT's share as a partner of any gain realized by the Partnerships on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. The prohibited transaction income could also have an adverse effect upon PREIT's ability to satisfy the income tests for REIT status. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction. A safe harbor to avoid classification as a prohibited transaction exists as to real estate assets held for the production of rental income by a REIT for at least four years where in any taxable year the REIT has made no more than seven sales of property or, in the alternative, the aggregate of the adjusted bases of all properties sold does not exceed 10% of the adjusted bases of all of the REIT's properties during the year and the expenditures includable in a property's net sales price. The Partnerships intend to hold properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning, and operating and leasing properties and to make occasional sales of the properties as are consistent with PREIT's and PREIT Partnership's investment objectives. No assurance can be given, however, that no

property sale by the Partnerships will constitute a sale of inventory or other property held primarily for sale to customers.

## Taxation of Shareholders

**Taxation of Taxable Domestic Shareholders.** As long as PREIT qualifies as a REIT, distributions made to PREIT's taxable domestic shareholders (or "U.S. shareholders") out of current or accumulated earnings and profits (and not designated as capital gain dividends or qualified dividend income) will be taken into account by them as ordinary income (at graduated federal income tax rates up to 35%). In determining the extent to which a distribution constitutes a dividend for tax purposes, PREIT's earnings and profits will be allocated first to distributions with respect to its preferred shares and then to its common shares. Corporate shareholders will not be eligible for the dividends-received deduction as to such amounts. Dividends paid by a REIT will generally not constitute qualified dividends that are taxed at the recently reduced federal capital gain tax rates (up to only 15%) that are generally applicable to dividend income earned by individuals from non-REIT C corporations, except to the extent the REIT dividends are attributable to dividend income earned by the REIT or are attributable to other REIT income on which certain income taxes have been paid by the REIT.

Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that the distributions do not exceed the adjusted basis of the shareholder's shares. Rather, such distributions will reduce the adjusted basis of such shares. To the extent that distributions exceed the adjusted basis of a U.S. shareholder's shares, the distributions will be taxable as capital gains, assuming the shares are a capital asset in the hands of the U.S. shareholder.

Distributions will generally be taxable, if at all, in the year of the distribution. However, if PREIT declares a dividend in October, November, or December of any year with a record date in one of these months and pays the dividend on or before January 31 of the following year, PREIT will be treated as having paid the dividend, and the shareholder will be treated as having received the dividend, on December 31 of the year in which the dividend was declared.

PREIT may elect to designate distributions of its net capital gain as "capital gain dividends." Capital gain dividends are taxed to PREIT's U.S. shareholders as gain from the sale or exchange of a capital asset held for more than one year. This tax treatment applies regardless of the period during which the shareholders have held their shares. If PREIT designates any portion of a dividend as a capital gain dividend, the amount that will be taxable to the shareholder as capital gain will be detailed to U.S. shareholders on Internal Revenue Service Form 1099-DIV. Corporate shareholders, however, may be required to treat up to 20% of capital gain dividends as ordinary income.

Instead of paying capital gain dividends, PREIT may elect to require shareholders to include PREIT's undistributed net capital gains in their income. If PREIT makes such an election, U.S. shareholders (1) will include in their income as long-term capital gains their proportionate share of such undistributed capital gains and (2) will be deemed to have paid their proportionate share of the tax paid by PREIT on such undistributed capital gains and thereby receive a credit or refund for such amount. A U.S. shareholder of PREIT's shares will increase the basis in its shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. PREIT's earnings and profits will be adjusted appropriately.

PREIT must classify portions of its designated capital gain dividend into the following categories:

1. a 15% gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 15%; or
2. an unrecaptured Section 1250 gain distribution, which would be taxable to taxable non-corporate U.S. shareholders at a maximum rate of 25%.

In addition, a 20% gain distribution, which would be taxable to non-corporate U.S. shareholders of PREIT's shares at a maximum rate of 20%, rather than 15%, may be applicable for capital gain dividends attributable to PREIT's capital gains for periods prior to May 6, 2003.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

PREIT must determine the maximum amounts that PREIT may designate as 15%, 20% and 25% capital gain dividends by performing the computation required by the Internal Revenue Code as if the REIT were an individual whose ordinary income were subject to a marginal tax rate of at least 28%. Designations made by the REIT only will be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. Recipients of capital gain dividends from PREIT that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on those dividends.

Distributions that are treated as dividends may be taxed at capital gain rates, rather than ordinary income rates, if they are distributed to a non-corporate taxpayer, are designated by PREIT as "qualified dividend income" and certain other requirements are satisfied. Dividends are eligible to be designated by PREIT as qualified dividend income up to an amount equal to the sum of the qualified dividend income received by PREIT during the year of the distribution from C corporations, PREIT's "undistributed" REIT taxable income from the immediately preceding year and PREIT's income attributable to the sale of a built-in-gain asset from the immediately preceding year (reduced by any federal income taxes that PREIT paid with respect to such REIT taxable income and built-in gain.)

As explained in the preceding paragraph, dividends that PREIT receive that are qualified dividend income to PREIT may increase the amount of dividends that PREIT pays to its shareholders that may be designated as qualified dividend income to its shareholders. Dividends that PREIT receives will be treated as qualified dividend income to PREIT if certain criteria are met. For example, the dividends must be received from a domestic corporation (other than a REIT or a regulated investment company, or "RIC") or a qualifying foreign corporation. A foreign corporation will generally be a qualifying foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States which the Secretary of Treasury determines is satisfactory, or the stock on which the dividend is paid is readily tradable on an established securities market in the United States. However, if a foreign corporation is either a foreign personal holding company, a foreign investment company or a passive foreign investment company, then it will not be treated as a qualifying foreign corporation and the dividends PREIT receives from such an entity would not constitute qualified dividend income to PREIT.

Furthermore, certain exceptions and special rules apply in order to determine whether dividends may be treated as qualified dividend income to PREIT. These rules include certain holding requirements that PREIT would have to satisfy with respect to the stock on which the dividend is paid, and special rules with regard to the dividends received from RICs and other REITs.

The amount of PREIT's dividends that PREIT may designate as qualified dividend income to its shareholders also may be increased if PREIT is subject to certain taxes. PREIT may increase the amount of dividends that PREIT designates as qualified dividend income by the excess of the sum of PREIT's "undistributed" REIT taxable income for the prior year, plus the amount of PREIT's built-in gain for the prior year recognized from the transfer of assets that were acquired from a taxable C corporation in a carry-over basis transaction, over any tax payable by PREIT on such REIT taxable income or built-in gain, in the year following the year in which such income is earned.

In addition, even if PREIT designates certain dividends as qualified dividend income to its shareholders, the shareholder will have to meet certain other requirements in order to treat the dividend as qualified dividend income to the shareholder. For example, the shareholder will only be eligible to treat the dividend as qualifying dividend income if the shareholder is an individual and meets certain holding requirements. In general, in order to treat a particular dividend as qualified dividend income, a shareholder will be required to hold PREIT's shares for more than 60 days during the 120-day period beginning on the date which is 60 days before the date on which such shares

132

---

become ex-dividend with respect to such dividend. A longer holding period may apply to preferred dividends which are attributable to a period or periods aggregating in excess of 366 days.

Distributions made by PREIT and gain arising from the sale or exchange by a U.S. shareholder of PREIT's shares will not be treated as passive activity income, and as a result, U.S. shareholders of PREIT's shares generally will not be able to apply any "passive losses" against this income or gain. In addition, taxable distributions from PREIT generally will be treated as investment income for purposes of the investment interest limitations. A U.S. shareholder of PREIT's shares may elect to treat capital gain dividends, capital gains from the disposition of shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable gain or income will be taxed at ordinary income tax rates. U.S. shareholders of PREIT's shares may not include in their individual income tax returns any of PREIT's net operating losses or capital losses. PREIT's operating or capital losses would be carried over by PREIT for potential offset against future income, subject to applicable limitations. PREIT will notify shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital and capital gain.

In general, a domestic shareholder will realize capital gain or loss on the disposition of shares equal to the difference between (1) the amount of cash and the fair market value of any property received on the disposition and (2) the shareholder's adjusted basis of the shares. The gain or loss generally will constitute long-term capital gain or loss if the shareholder has held the shares for more than one year. For an

individual shareholder, the long-term capital gain will generally be taxable at a maximum rate of 15%. The Internal Revenue Service has the authority to prescribe, but has not yet prescribed, regulations that would apply a capital gain tax rate of 25% (which is generally higher than the long-term capital gain tax rates for non-corporate shareholders) to a portion of capital gain realized by a non-corporate shareholder on the sale of REIT shares that would correspond to the REIT's "unrecaptured Section 1250 gain." Shareholders are advised to consult with their own tax advisors with respect to their capital gain tax liability.

Loss upon a sale or exchange of shares by a shareholder who has held the shares for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss to the extent of distributions from PREIT required to be treated by the shareholder as long-term capital gain (including both 15%- and 25%-rate gain).

**Taxation of Tax-Exempt Shareholders.** PREIT does not expect that distributions by PREIT to a shareholder that is a tax-exempt entity will constitute "unrelated business taxable income" ("UBTI"), provided that the tax-exempt entity has not financed the acquisition of its shares with "acquisition indebtedness" within the meaning of the Internal Revenue Code and the shares are not otherwise used in an unrelated trade or business of the tax-exempt entity. However, for a tax-exempt shareholder that is a social club, voluntary employee benefit association, supplemental unemployment benefit trust, or qualified group legal services plan exempt from federal income taxation under Internal Revenue Code Sections 501(c)(7), (c)(9), (c)(17) and (c)(20), respectively, or a single parent title-holding corporation exempt under Section 501(c)(2) the income of which is payable to any of the aforementioned tax-exempt organizations, income from an investment in PREIT's shares will constitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Internal Revenue Code. These tax exempt shareholders should consult their own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a "pension held REIT" are treated as UBTI as to any trust which is described in Section 401(a) of the Internal Revenue Code, is tax-exempt under Section 501(a) of the Internal Revenue Code, and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "pension trusts."

133

---

A REIT is a "pension held REIT" if it meets the following two tests:

1. it would not have qualified as a REIT but for Section 856(h)(3) of the Internal Revenue Code, which provides that shares owned by pension trusts will be treated, for purposes of determining whether the REIT is closely held, as owned by the beneficiaries of the trust rather than by the trust itself; and
2. either (a) at least one pension trust holds more than 25% of the value of the interests in the REIT, or (b) a group of pension trusts, each individually holding more than 10% of the value of the REIT's shares, collectively owns more than 50% of the value of the REIT's shares.

The percentage of any REIT dividend from a "pension held REIT" that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is not a "pension held REIT" (for example, if the REIT is able to satisfy the "not closely held requirement" without relying on the "look through" exception with respect to pension trusts. Based on the current estimated ownership of PREIT's common and 11% preferred shares and as a result of certain limitations on transfer and ownership of common and preferred shares contained in PREIT's trust agreement, PREIT does not expect to be classified as a "pension held REIT."

**Taxation of Non-U.S. Shareholders.** The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign shareholders, which we refer to collectively as Non-U.S. Shareholders, are complex, and no attempt will be made herein to provide more than a limited summary of these rules. Prospective Non-U.S. Shareholders should consult with their own tax advisor to determine the impact of U.S. federal, state and local income tax laws with regard to an investment in shares, including any reporting requirements. In particular, Non-U.S. Shareholders who are engaged in a trade or business in the United States, and Non-U.S. Shareholders who are individuals and who were present in the United States for 183 days or more during the tax year and have a "tax home" in the United States, may be subject to tax rules different from those described below.

Distributions that are not attributable to gain from sales or exchanges by PREIT of U.S. real property interests and not designated by PREIT as capital gain dividends will be treated as dividends of ordinary income to the extent that they are made out of current or accumulated earnings



and profits of PREIT. These distributions, ordinarily, will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces that tax or the dividends are treated as effectively connected with the conduct by the Non-U.S. Shareholder of a U.S. trade or business. Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from REITs. Dividends that are effectively connected with a trade or business will be subject to tax on a net basis, that is, after allowance for deductions, at graduated rates, in the same manner as U.S. shareholders are taxed with respect to these dividends, and are generally not subject to withholding. Applicable certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exception. Any dividends received by a corporate Non-U.S. Shareholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate. PREIT expects to withhold U.S. income tax at the rate of 30% on any dividend distributions, not designated as (or deemed to be) capital gain dividends, made to a Non-U.S. Shareholder unless:

a lower treaty rate applies and the Non-U.S. Shareholder files an Internal Revenue Service Form W-8BEN with PREIT evidencing eligibility for that reduced rate is filed with PREIT; or

134

---

the Non-U.S. Shareholder files an Internal Revenue Service Form W-8ECI with PREIT claiming that the distribution is effectively connected income.

Distributions in excess of current and accumulated earnings and profits of PREIT will not be taxable to a Non-U.S. Shareholder to the extent that they do not exceed the adjusted basis of the shareholder's shares, but rather will reduce the adjusted basis of the shares. To the extent that these distributions exceed the adjusted basis of a Non-U.S. Shareholder's shares, they will give rise to tax liability if the Non-U.S. Shareholder would otherwise be subject to tax on any gain from the sale or disposition of shares as described below (in which case they also may be subject to a 30% branch profits tax if the shareholder is a foreign corporation). If it cannot be determined at the time a distribution is made whether or not the distribution will be in excess of current or accumulated earnings and profits, the entire distribution will be subject to withholding at the rate applicable to dividends. However, the Non-U.S. Shareholder may seek a refund of the amounts from the Internal Revenue Service if it is subsequently determined that the distribution was, in fact, in excess of current or accumulated earnings and profits of PREIT.

PREIT may be required to withhold at least 10% of any distribution in excess of its current and accumulated earnings and profits, even if a lower treaty rate applies or the Non-U.S. Shareholder is not liable for tax on the receipt of that distribution. However, a Non-U.S. Shareholder may seek a refund of these amounts from the Internal Revenue Service if the Non-U.S. Shareholder's U.S. tax liability with respect to the distribution is less than the amount withheld.

Distributions to a Non-U.S. Shareholder that are designated by PREIT at the time of the distribution as capital gain dividends, other than those arising from the disposition of a U.S. real property interest, generally should not be subject to U.S. federal income taxation unless:

the investment in the shares is effectively connected with the Non-U.S. Shareholder's trade or business, in which case the Non-U.S. Shareholder will be subject to the same treatment as U.S. shareholders with respect to any gain, except that a shareholder that is a foreign corporation also may be subject to the 30% branch profits tax, as discussed above; or

the Non-U.S. Shareholder is a nonresident alien individual who is present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S., in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

PREIT will be required to withhold and remit to the Internal Revenue Service 35% of any distributions to Non-U.S. Shareholders that are designated as capital gain dividends, or, if greater, 35% of a distribution that could have been designated as a capital gain dividend. Distributions can be designated as capital gains to the extent of PREIT's net capital gain for the taxable year of the distribution. The amount withheld is creditable against the Non-U.S. Shareholder's United States federal income tax liability.

Although the law is not entirely clear on the matter, it appears that amounts of undistributed capital gain that are designated by PREIT as deemed distributions (as discussed under "Taxation of Taxable Domestic Shareholders" above) would be treated with respect to Non-U.S. Shareholders in the manner outlined in the preceding paragraph for actual distributions by PREIT of capital gain dividends. Under that approach, the Non-U.S. Shareholders would be able to offset as a credit against their United States federal income tax liability resulting therefrom their proportionate share of the tax paid by PREIT on the undistributed capital gains (and to receive from the Internal Revenue Service a refund to the extent their proportionate share of the tax paid by PREIT were to exceed their actual United States federal income tax liability).

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Under the Foreign Investment in Real Property Tax Act, which is referred to as "FIRPTA," distributions to a Non-U.S. Shareholder that are attributable to gain from sales or exchanges by PREIT of U.S. real property interests, whether or not designated as a capital gain dividend, will cause the

135

---

Non-U.S. Shareholder to be treated as recognizing gain that is income effectively connected with a U.S. trade or business. Non-U.S. Shareholders will be taxed on this gain at the same rates applicable to U.S. shareholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% (or lower applicable treaty rate) branch profits tax in the hands of a Non-U.S. Shareholder that is a corporation.

Gain recognized by a Non-U.S. Shareholder upon a sale of shares generally will not be taxed under FIRPTA if PREIT is a "domestically controlled REIT," defined generally as a REIT in which at all times during a specified testing period less than 50% in value of its stock was held directly or indirectly by foreign persons. PREIT believes that it is a "domestically controlled REIT," and, therefore, that the sale of its shares will not be subject to taxation under FIRPTA.

Gain recognized by a Non-U.S. Shareholder upon the sale or exchange of PREIT's shares generally would not be subject to United States taxation unless:

the investment in PREIT's shares is effectively connected with the Non-U.S. Shareholder's U.S. trade or business, in which case the Non-U.S. Shareholder will be subject to the same treatment as domestic shareholders with respect to any gain;

the Non-U.S. Shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's net capital gains for the taxable year; or

PREIT's shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

PREIT believes that, currently, it is a domestically controlled REIT and, therefore, that the sale of its shares would not be subject to taxation under FIRPTA. Because PREIT's shares are publicly traded, however, PREIT cannot guarantee that it is or will continue to be a domestically-controlled REIT.

Even if PREIT does not qualify as a domestically-controlled REIT at the time a Non-U.S. Shareholder sells PREIT's shares, gain arising from the sale still would not be subject to FIRPTA tax if:

the class or series of shares sold is considered regularly traded under applicable Treasury regulations on an established securities market, such as the NYSE; and

the selling Non-U.S. Shareholder owned, actually or constructively, 5% or less in value of the outstanding class or series of shares being sold throughout the shorter of the period during which the non-U.S. shareholder had such class or series of shares or the five-year period ending on the date of the sale or exchange.

If the gain on the sale of shares were to be subject to tax under FIRPTA, the Non-U.S. Shareholder would be subject to the same treatment as U.S. shareholders with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals), and the purchaser of the shares would be required to withhold and remit to the Internal Revenue Service 10% of the purchase price.

### **Backup Withholding Tax and Information Reporting**

In general, information-reporting requirements will apply to payments of dividends on PREIT's shares to some U.S. shareholders, unless an exception applies.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The payor is required to withhold tax on such payments at the rate of 28% if (1) the payee fails to furnish a taxpayer identification number, or TIN, to the payor or to establish an exemption from

136

---

backup withholding, or (2) the Internal Revenue Service notifies the payor that the TIN furnished by the payee is incorrect.

In addition, a payor of the dividends on PREIT's shares is required to withhold tax at a rate of 28% if (1) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Internal Revenue Code, or (2) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Internal Revenue Code.

Some shareholders, including corporations, may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a shareholder will be allowed as a credit against the shareholder's United States federal income tax and may entitle the shareholder to a refund, provided that the required information is furnished to the Internal Revenue Service.

The payor will be required to furnish annually to the Internal Revenue Service and to PREIT's shareholders information relating to the amount of dividends paid on PREIT's shares, and that information reporting may also apply to payments of proceeds from the sale of PREIT's shares. Some shareholders, including corporations, financial institutions and certain tax-exempt organizations, are generally not subject to information reporting.

With regard to Non-U.S. Shareholders, information reporting generally will apply to payments of dividends on PREIT's shares, and backup withholding described above for a U.S. shareholder will apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption.

The payment of the proceeds from the disposition of PREIT's shares to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and backup withholding as described above for U.S. shareholders unless the Non-U.S. Shareholder satisfies the requirements necessary to be an exempt Non-U.S. Shareholder or otherwise qualifies for an exemption. The proceeds of a disposition by a Non-U.S. Shareholder of PREIT's shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. tax purposes, a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership if partners who hold more than 50% of the interest in the partnership are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the U.S., then information reporting generally will apply as though the payment was made through a U.S. office of a U.S. or foreign broker.

Applicable Treasury regulations provide presumptions regarding the status of a PREIT shareholder when payments to such shareholder cannot be reliably associated with appropriate documentation provided to the payer. Because the application of these Treasury regulations varies depending on the shareholder's particular circumstances, you are advised to consult your tax advisor regarding the information reporting requirements applicable to you.

### **Sunset of Tax Provisions**

Several of the tax considerations described herein are subject to a sunset provision. The sunset provision generally provides that for taxable years beginning after December 31, 2008, certain provisions that are currently in the Internal Revenue Code will revert back to a prior version of those provisions. These provisions include those related to qualified dividend income, the application of the 15% capital gains rate to qualified dividend income and other tax rates described herein. The impact of this reversion is not discussed herein. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of sunset provisions on an investment in PREIT's shares.

137

---

### **Other Tax Considerations**

PREIT and its shareholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of PREIT and its shareholders may not conform to the federal income tax

consequences discussed above. Consequently, prospective shareholders should consult their own tax advisor regarding the effect of state and local tax laws on an investment in the shares of PREIT.

### **Tax Shelter Reporting**

Under recently promulgated Treasury regulations, if a stockholder recognizes a loss with respect to shares of equity securities of \$2 million or more for an individual stockholder or \$10 million or more for a corporate stockholder, the stockholder may be required to file a disclosure statement with the Internal Revenue Service on Form 8886. Direct stockholders of portfolio securities are in many cases exempt from this reporting requirement, but stockholders of a REIT currently are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

138

---

### **DESCRIPTION OF PREIT SHARES OF BENEFICIAL INTEREST**

*The following summary of the material terms of PREIT's shares of beneficial interest does not include all of the terms of the shares and should be read together with the trust agreement and by-laws of PREIT and applicable Pennsylvania law and, in the case of the PREIT 11% preferred shares, the form of the designating amendment to PREIT's trust agreement for such preferred shares. The PREIT trust agreement and by-laws are incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192. The form of the designating amendment to PREIT's trust agreement for the PREIT 11% preferred shares to be established as part of the merger is included as an exhibit to the registration statement of which this proxy statement/prospectus is a part.*

### **Authorized Capital Stock**

Under the PREIT trust agreement, PREIT has the authority to issue up to 100,000,000 shares of beneficial interest and up to 25,000,000 preferred shares.

### **Shares of Beneficial Interest**

**Voting, Dividend and Other Rights.** Subject to the provisions of the PREIT trust agreement regarding "Excess Shares" (See " REIT Ownership Limitations and Transfer Restrictions Applicable to PREIT Shares of Beneficial Interest and 11% Preferred Shares" beginning on page 148), (1) the holders of PREIT shares are entitled to one vote per share on all matters voted on by shareholders, including elections of trustees, and (2), subject to the rights of holders of any preferred shares, including the PREIT 11% preferred shares, the holders of PREIT shares are entitled to a pro rata portion of such distributions as may be declared from time to time by the trustees from funds available therefor, and upon liquidation are entitled to receive pro rata all of the assets available for distribution to such holders. See " New 11% Preferred Shares Dividends and Liquidation." The majority of shares voting on a matter at a meeting at which at least a majority of the outstanding shares are present in person or by proxy constitutes the act of the shareholders, except with respect to the election of trustees (see below). The PREIT trust agreement permits the holders of securities of PREIT affiliates to vote with PREIT shareholders on certain matters, and PREIT trustees have granted that right to certain holders of currently outstanding PREIT Partnership Units with respect to fundamental changes in PREIT (i.e. mergers, consolidations and sales of substantially all of PREIT's assets). See "Summary of the Operating Partnership Agreement and PREIT Partnership Units Authorization of PREIT Partnership Units" beginning on page 146. Shareholders do not have any pre-emptive rights to purchase PREIT securities.

The PREIT trust agreement provides that the trustees may issue multiple classes and series of shares of beneficial interest and, subject to the rights of the holders of the PREIT 11% preferred shares, classes and series of preferred shares having preferences to the existing shares in any matter, including rights in liquidation or to dividends and option rights (including shareholder rights plans), and other securities having conversion or option rights and may authorize the creation and issuance by PREIT subsidiaries and affiliates of securities having conversion and option rights in respect of shares. Thus, the rights of holders of existing shares of beneficial interest are subject and junior to preferred rights, including the rights of holders of the PREIT 11% preferred shares as to dividends and in liquidation (and other such matters) and to the extent set forth in any subsequently authorized preferred shares or class of preferred shares.

**Board of Trustees.** The board of trustees is divided into three classes serving staggered three-year terms. The PREIT trust agreement does not provide for cumulative voting in the election of trustees, and the candidates receiving the highest number of votes are elected to the office of trustee.

**Trustee Nomination Process.** The PREIT trust agreement provides that nominations for election to the office of trustee at any annual or special meeting of shareholders shall be made by the trustees, or

by petition in writing delivered to the secretary not fewer than 35 days before the meeting signed by the holders of at least two percent of the shares outstanding on the date of the petition. Nominations not made in accordance with these procedures will not be considered unless the number of persons nominated is fewer than the number of persons to be elected to the office of trustee at the meeting. In this latter event, nominations for the trustee positions which would not otherwise be filled may be made at the meeting by any person entitled to vote in the election of trustees.

### **New 11% Preferred Shares**

PREIT will issue in the merger PREIT 11% preferred shares to current holders of Crown 11% preferred shares. The number of shares designated as PREIT 11% preferred shares will be 2,475,000. The number of 11.00% preferred shares may be decreased by the PREIT board from time to time, though not below the number of PREIT 11% preferred shares then outstanding. The terms of the new PREIT 11% preferred shares will be identical in all material respects to the existing Crown 11% preferred shares.

**Rank.** The PREIT 11% preferred shares will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of PREIT, rank senior to all classes or series of equity securities of PREIT, except that the PREIT 11% preferred shares will rank on a parity with additional preferred shares issued by PREIT the terms of which specifically provide that such preferred shares rank on a parity with the PREIT 11% preferred shares with respect to dividend rights or rights upon liquidation, dissolution or winding up of PREIT so long as the aggregate liquidation preference of the additional preferred shares and the PREIT 11% preferred shares together do not exceed \$123,750,000.

**Dividends.** Holders of the PREIT 11% preferred shares will be entitled to receive, when, as and if declared by the board of trustees, out of funds legally available for the payment of dividends, cumulative, preferential cash dividends in an amount per share equal to \$5.50 per annum. Each dividend will be payable to holders of record as they appear on the transfer books of PREIT on the record date as provided below.

Dividends with respect to the PREIT 11% preferred shares will be cumulative and will be payable quarterly in arrears in March, June, September and December beginning with the dividend payment for December 2003, assuming the proposed merger occurs during the December 2003 quarterly dividend period (each, a "Preferred Dividend Payment Date"). Any dividend payable on the PREIT 11% preferred shares for any partial dividend period after the initial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the PREIT 11% preferred shares for each full dividend period will be computed by dividing the annual dividend rate by four. The initial dividend payable on the PREIT 11% preferred shares will accrue for the full December 2003 dividend period, assuming the proposed merger occurs during the December 2003 quarterly dividend period, and shall be equal to the full quarterly dividend amount of \$1.375 per share. Dividends will be payable to holders of record as they appear in the share records of PREIT at the close of business on the applicable record date, which will be the first day of the calendar month in which the applicable Preferred Dividend Payment Date falls or such other date designated by the board of trustees for the payment of dividends that is no more than thirty (30) nor less than ten (10) days prior to such Preferred Dividend Payment Date (each, a "Preferred Dividend Record Date").

In addition, holders of the PREIT 11% preferred shares may be eligible to receive additional dividends ("Additional Dividends") from time to time in the event that PREIT exceeds the leverage ratio requirement. If required, Additional Dividends will be paid quarterly to holders of the PREIT 11% preferred shares if PREIT's "Total Debt" (as defined in the proposed designating amendment) exceeds the product of 6.5 times "EBITDA" (as defined in the proposed designating amendment) (the "Leverage Ratio") without the consent of the holders of at least 50% of the PREIT 11% preferred shares outstanding at that time. Holders who consent to a waiver of such restriction will be paid a

consent fee. If required to be paid, Additional Dividends will be for an amount per share equal to 0.25% of the Preferred Liquidation Preference Amount on an annualized basis for the first quarter with respect to which an Additional Dividend is due. For each quarter thereafter that PREIT continues to exceed the permitted Leverage Ratio, the Additional Dividend will increase by an amount per share equal to an additional 0.25% of the Preferred Liquidation Preference Amount on an annualized basis. However, the maximum total dividend on the PREIT 11% preferred shares, including any Additional Dividends, will not at any time exceed 13% of the Preferred Liquidation Preference Amount per annum.

No dividends on the PREIT 11% preferred shares will be declared by the board of trustees or paid or set apart for payment by PREIT at such time as, and to the extent that, the terms and provisions of any agreement of PREIT, including any agreement relating to its indebtedness, or any provisions of the PREIT trust agreement relating to any series of preferred shares ranking senior to the PREIT 11% preferred shares as to dividends, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment will be prohibited by law. Notwithstanding the foregoing, dividends on the PREIT 11% preferred shares will accrue whether or not PREIT has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared.

If any PREIT 11% preferred shares are outstanding, no full dividends will be declared or paid or set apart for payment on the capital shares of PREIT or any other series ranking, as to dividends, on a parity with or junior to the PREIT 11% preferred shares for any period unless full cumulative dividends (including any Additional Dividends) have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payment on the PREIT 11% preferred shares for all past dividend periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the PREIT 11% preferred shares and the shares of any series of preferred shares ranking on a parity as to dividends with the PREIT 11% preferred shares, all dividends declared upon the PREIT 11% preferred shares and any series of preferred shares ranking on a parity as to dividends with the PREIT 11% preferred shares will be declared pro rata so that the amount of dividends declared per share on the PREIT 11% preferred shares and such other series of preferred shares will in all cases bear to each other the same ratio that accrued and unpaid dividends per share and such other series of preferred shares bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the PREIT 11% preferred shares which may be in arrears.

Except as provided in the immediately preceding paragraph, unless full cumulative dividends (including any Additional Dividends) on the PREIT 11% preferred shares have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than distributions payable in PREIT common shares or other capital shares ranking junior to the PREIT 11% preferred shares as to dividends and upon liquidation, dissolution or winding up of PREIT) will be declared or paid or set aside for payment, and no other distribution will be declared or made, upon the PREIT common shares or any other capital shares of PREIT ranking junior to or on a parity with the PREIT 11% preferred shares as to dividends, nor will any PREIT common shares or any other capital shares of PREIT ranking junior to or on a parity with the PREIT 11% preferred shares as to dividends or upon liquidation, dissolution or winding up of PREIT be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by PREIT (except by conversion into or exchange for other capital shares of PREIT ranking junior to the PREIT 11% preferred shares as to dividends and upon liquidation, dissolution and winding up).

Any dividend payment made on PREIT 11% preferred shares will first be credited against the earliest accrued but unpaid dividend due with respect to the PREIT 11% preferred shares which remains payable.

**Liquidation Rights.** In the event of any liquidation, dissolution or winding up of PREIT, subject to the prior rights of any series of capital shares ranking senior to the PREIT 11% preferred shares, the holders of PREIT 11% preferred shares will be entitled to be paid out of the assets of PREIT legally available for distribution to its shareholders a liquidation preference equal to the sum of \$50.00 per share plus an amount equal to any accrued and unpaid dividends thereon (whether or not earned or declared) to the date of payment (the "Preferred Liquidation Preference Amount"), before any distribution of assets is made to holders of PREIT common shares or any other capital shares that rank junior to the PREIT 11% preferred shares as to liquidation rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the PREIT 11% preferred shares will have no right or claim to any of the remaining assets of PREIT.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up of PREIT, the legally available assets of PREIT are insufficient to pay the Preferred Liquidation Preference Amount on all outstanding PREIT 11% preferred shares and the corresponding amounts payable on all shares of other classes or series of capital shares of PREIT ranking on a parity with the PREIT 11% preferred shares in the distribution of assets upon liquidation, dissolution or winding up of PREIT, then the holders of the PREIT 11% preferred shares and all other such classes or series of capital shares will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions have been made in full to all holders of PREIT 11% preferred shares, the remaining assets of PREIT will be distributed among the holders of any other classes or series of capital shares ranking junior to PREIT 11% preferred shares upon liquidation, dissolution or winding up of PREIT, according to their respective rights and preferences and in each case according to their respective number of shares.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

The consolidation or merger of PREIT with or into any other corporation, or the sale, lease, transfer or conveyance of all or substantially all of the property or business of PREIT, will not be deemed to constitute a liquidation, dissolution or winding up of PREIT for these purposes.

**Redemption.** The PREIT 11% preferred shares will not be redeemable prior to July 31, 2007, except under certain limited circumstances to preserve PREIT's status as a REIT. See " REIT Ownership Limitations and Transfer Restrictions Applicable to PREIT Shares of Beneficial Interest and 11% Preferred Shares" beginning on page 148. On and after July 31, 2007, PREIT, at its option (to the extent PREIT has legally available funds) upon not less than 30 nor more than 60 days written notice, may redeem the PREIT 11% preferred shares, in whole or in part, at any time or from time to time, during the periods and at the redemption price set forth below plus any accrued and unpaid dividends to the date of redemption:

<b>Redemption Period</b>	<b>Redemption Price Per 11% Preferred Share</b>	
July 31, 2007 Through July 30, 2009	\$	52.50
July 31, 2009 through July 30, 2010	\$	51.50
On or after July 31, 2010	\$	50.00

Notwithstanding the foregoing, unless full cumulative dividends on all outstanding PREIT 11% preferred shares have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, (1) no PREIT 11% preferred shares will be redeemed unless all outstanding PREIT 11% preferred shares are simultaneously redeemed; except, that the foregoing will not prevent

142

the purchase or acquisition of PREIT 11% preferred shares pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding PREIT 11% preferred shares, and (2) PREIT will not purchase or otherwise acquire directly or indirectly through a subsidiary or otherwise, any PREIT 11% preferred shares.

If fewer than all of the outstanding PREIT 11% preferred shares are to be redeemed, the number of shares to be redeemed will be determined by PREIT and such shares may be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (as nearly as may be practicable without creating fractional PREIT 11% preferred shares) or any other equitable method determined by PREIT.

Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the Redemption Date. A similar notice will be mailed by PREIT, postage prepaid, not less than 30 nor more than 60 days prior to the Redemption Date, addressed to the respective holders of record of the PREIT 11% preferred shares to be redeemed at their respective addresses as they appear on the share transfer records of PREIT. No failure to give such notice or any defect therein or in the mailing thereof will affect the validity of the proceeding for the redemption of any PREIT 11% preferred shares except as to the holder to whom notice was defective or not given. Each notice will state: (1) the redemption date; (2) the redemption price; (3) the aggregate number of PREIT 11% preferred shares to be redeemed and, if less than all PREIT 11% preferred shares held by the shareholder are to be redeemed, the number of PREIT 11% preferred shares to be redeemed; (4) the place or places where the PREIT 11% preferred shares are to be surrendered for payment of the redemption price; and (5) that dividends on the PREIT 11% preferred shares to be redeemed will cease to accrue on such redemption date. If fewer than all the PREIT 11% preferred shares held by any holder are to be redeemed, the notice mailed to such holder will also specify the number of PREIT 11% preferred shares to be redeemed from such holder. If notice of redemption of any PREIT 11% preferred shares has been properly given and if funds necessary for such redemption have been irrevocably set aside by PREIT in trust for the benefit of the holders of any of the PREIT 11% preferred shares so called for redemption, then from and after the redemption date dividends will cease to accrue on such PREIT 11% preferred shares, such PREIT 11% preferred shares will no longer be deemed to be outstanding and all rights of the holders of such PREIT 11% preferred shares will terminate except for the right to receive the applicable redemption price and other amounts payable in respect of such PREIT 11% preferred shares.

The holders of the PREIT 11% preferred shares at the close of business on a Preferred Dividend Record Date will be entitled to receive the dividend payable with respect to such PREIT 11% preferred shares on the corresponding Preferred Dividend Payment Date notwithstanding the redemption thereof between such Preferred Dividend Record Date and the corresponding Preferred Dividend Payment Date or PREIT's default in the payment of the dividend due. Except as provided above, PREIT will make no payment or allowance for unpaid dividends, whether or not in arrears, on PREIT 11% preferred shares called for redemption.

All PREIT 11% preferred shares redeemed will be retired and will be restored to the status of authorized and unissued preferred shares, without designation as to series, and subject to the applicable limitations set forth herein may thereafter be reissued as any series of preferred shares.

The PREIT 11% preferred shares have no stated maturity and will not be subject to any sinking fund.

**Voting Rights.** Holders of the PREIT 11% preferred shares will not have any voting rights, except as set forth below or as otherwise from time to time required by law. Subject to the provisions in the PREIT trust agreement regarding Excess Shares, in any matter in which the PREIT 11% preferred

143

---

shares may vote, including any action by written consent, each share will be entitled to one vote. The holders of each share may separately designate a proxy for the vote to which that share is entitled.

Whenever dividends on any PREIT 11% preferred shares have been in arrears for six or more quarterly dividend periods (regardless of whether such periods are consecutive), the holders of such PREIT 11% preferred shares (voting separately as a class with all other series of preferred shares upon which rights to vote on such matter with PREIT 11% preferred shares have been conferred and are then exercisable) will be entitled to vote for the election of two additional trustees of PREIT at a special meeting called by the holders of record of at least 10% of the PREIT 11% preferred shares and any other preferred shares, if any (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders), or at the next annual meeting of shareholders, and at each subsequent annual meeting until all dividends accumulated on such PREIT 11% preferred shares for the past dividend periods and the then current dividend period have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In this event, the entire board will be increased by two trustees. Each of the two trustees will be elected to serve until the earlier of (1) the election and qualification of the trustee's successor or (2) payment of the dividend arrearage for the PREIT 11% preferred shares.

If any trustee elected by the holders of the PREIT 11% preferred shares ceases to serve as a trustee before the trustee's term expires, the holders of the PREIT 11% preferred shares (and any other series of preferred shares, if any, entitled to vote on such matter, as described above) then outstanding may, at a special meeting of the holders called as provided above, elect a successor to hold office for the unexpired term of the trustee whose place is vacant.

So long as any PREIT 11% preferred shares remain outstanding, PREIT will not (1) without the affirmative vote or consent of the holders of all of the PREIT 11% preferred shares outstanding at the time (such series voting separately as a class), authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital shares ranking senior to the PREIT 11% preferred shares with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (2) without the affirmative vote or consent of the holders of at least two-thirds of the PREIT 11% preferred shares outstanding at the time (such series voting separately as a class), amend, alter or repeal the provisions of the PREIT trust agreement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the PREIT 11% preferred shares or the holders thereof; except that any increase in the amount of the authorized preferred shares, or the creation or issuance of any other series of preferred shares, or any increase in the amount of authorized shares of preferred shares or any other series of preferred shares, in each case ranking on a parity with or junior to the PREIT 11% preferred shares with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of PREIT, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required is effected, all outstanding PREIT 11% preferred shares have been redeemed or called for redemption upon proper notice and sufficient funds have been deposited in trust to effect such redemption.

#### **PREIT Shareholder Rights Plan**

The following Summary of the Rights Agreement, dated as of April 30, 1999, as the same may be amended from time to time, which we refer to as the Rights Agreement, between PREIT and American Stock Transfer and Trust Company, as rights agent, which we refer to as the Rights Agent, does not include all of the terms thereof and should be read together with the Rights Agreement,

144

---

which is incorporated by reference into this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192.



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

PREIT has adopted a shareholder rights plan. The description and terms of the rights are set forth in the Rights Agreement. Each right entitles its registered holder to purchase from PREIT one share at a price of \$70.00, which we refer to as the Exercise Price, subject to certain adjustments.

The rights, unless earlier redeemed or exchanged by the board of trustees, become exercisable upon the close of business on the day, which we refer to as the Distribution Date, that is the earlier of (1) the tenth day following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person"), with certain exceptions set forth below, has acquired beneficial ownership or voting control of 15% or more of PREIT outstanding voting shares, and (2) the tenth business day (or such later date as may be determined by the board of trustees prior to such time as any person or group of affiliated or associated persons becomes an Acquiring Person) after the date of the commencement or public announcement of a person's or group's intention to commence a tender or exchange offer the consummation of which would result in the acquisition of beneficial ownership or voting control of 15% or more PREIT outstanding voting shares (even if no shares are actually acquired pursuant to such offer). The rights will expire at the close of business on March 31, 2009, unless earlier redeemed or exchanged by PREIT as described below.

Unless the rights are redeemed or exchanged, if a person or group of affiliated or associated persons become an Acquiring Person, each holder of record of a right, other than the Acquiring Person (whose rights will become null and void), will have the right to pay the Exercise Price in return for shares having a market value equal to double the Exercise Price. In addition, after a person or group becomes an Acquiring Person, if PREIT were to undergo a change of control, each holder of record of a right, other than the Acquiring Person (whose rights will become null and void), will have the right to pay the Exercise Price in return for shares of the acquiring entity having a market value equal to double the Exercise Price.

At any time after any person or group of affiliated or associated persons becomes an Acquiring Person and prior to the acquisition by such Acquiring Person of 50% or more of PREIT's outstanding voting shares, the board of trustees may exchange the rights (other than rights owned by the Acquiring Person which will have become null and void), in whole or in part, at an exchange ratio of one share per right (subject to adjustment).

The rights have anti-takeover effects in that they will cause substantial dilution to a person or group of affiliated or associated persons that attempts to acquire PREIT on terms not approved by the board of trustees. The rights should not interfere with any merger or other business combination approved by the board of trustees because the rights may be redeemed by PREIT at \$0.001 per right at any time until the close of business on the tenth day (or such later date as described above) after a person or group has obtained beneficial ownership or voting control of 15% or more of PREIT voting shares.

### **Transfer Agent and Registrar**

The transfer agent and registrar for the PREIT shares of beneficial interest is, and for the PREIT 11% preferred shares will be, American Stock Transfer & Trust Co.

### **Limited Liability of Shareholders**

The PREIT trust agreement provides that shareholders, to the fullest extent permitted by applicable law, are not liable for any act, omission or liability of a trustee and that the trustees have no power to bind shareholders personally. Notwithstanding the foregoing, there may be liability in some jurisdictions that may decline to recognize a business trust as a valid organization. With respect to all

types of claims in such jurisdictions, and with respect to tort claims, certain contract claims and possible tax claims in jurisdictions where the business trust is treated as a partnership for certain purposes, shareholders may be personally liable for such obligations to the extent that PREIT does not satisfy such claims. PREIT conducts substantially all of its business in jurisdictions other than the Commonwealth of Pennsylvania in entities recognized in the relevant jurisdiction to limit the liability of equity owners. PREIT carries insurance in amounts which it deems adequate to cover foreseeable tort claims.

### **Summary of the Operating Partnership Agreement and PREIT Partnership Units**

The following summary of the First Amended and Restated Agreement of Limited Partnership of PREIT Partnership, as amended, including the proposed addendum thereto (the "Operating Partnership Agreement") and PREIT Partnership Units does not include all the terms thereof and should be read together with the Operating Partnership Agreement, which is incorporated by reference into this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 192.

**General.** PREIT is the sole general partner of PREIT Partnership. PREIT contributed to PREIT Partnership, or to entities wholly owned by PREIT Partnership, the real estate interests owned, directly or indirectly, by PREIT, or the economic benefits thereof, in exchange for a general partnership interest in PREIT Partnership and a number of Class A PREIT Partnership Units that equaled, in the aggregate, the number of PREIT shares of beneficial interest issued and outstanding on September 30, 1997. Pursuant to the proposed merger, PREIT Partnership will issue to PREIT, 11% Senior Preferred Units, representing another class of PREIT Partnership Units. The number of 11% PREIT Partnership Units issued will at any time always equal the number of PREIT 11% preferred shares outstanding. See "New 11% Preferred Shares" beginning on page 140 for a description of the PREIT 11% preferred shares.

**Management.** Under the Operating Partnership Agreement, PREIT, as the sole general partner of PREIT Partnership, has the authority, to the exclusion of the limited partners, to make all management decisions on behalf of PREIT Partnership. In addition, PREIT, as general partner, will have the ability to cause PREIT Partnership to create and issue subsequent classes of limited or preferred partner interests with terms different from the limited partner and general partner interests currently outstanding. PREIT has agreed in the Operating Partnership Agreement to conduct substantially all of its business activities through PREIT Partnership unless a majority in interest of the PREIT Partnership Units (exclusive of PREIT Partnership Units owned by it) consent to the conduct of business activities outside PREIT Partnership.

**Authorization of PREIT Partnership Units and Voting Rights.** The Operating Partnership Agreement authorizes the issuance of an unlimited number of PREIT Partnership Units in one or more classes. Holders of PREIT Partnership Units are entitled to distributions from PREIT Partnership as and when made by PREIT as the general partner. Because PREIT will, of necessity, have to make distributions on the Class A PREIT Partnership Units held directly or indirectly by PREIT at the times and in the amounts as will permit PREIT to make distributions to PREIT shareholders necessary to preserve its status as a REIT for federal income tax purposes, it is anticipated that the other holders of PREIT Partnership Units will receive such distributions at the approximate time, and in the same amounts, as distributions are declared and paid by PREIT to PREIT shareholders.

Holders of PREIT Partnership Units generally will have no right to vote on any matter voted on by holders of PREIT shares except that, prior to the date on which at least half of the PREIT Partnership Units issued on September 30, 1997 in connection with the organization of PREIT Partnership have been redeemed, the holders of PREIT Partnership Units issued and outstanding on September 30, 1997 are entitled to vote those PREIT Partnership Units and additional PREIT

Partnership Units that they may have received and may receive in the future pursuant to the transactions that were the subject of the September 30, 1997 issuance, along with PREIT shareholders as a single class, on any proposal to merge, consolidate, or sell substantially all of the assets of PREIT. PREIT Partnership Units owned by PREIT are not included for purposes of determining when half of the PREIT Partnership Units issued and outstanding on September 30, 1997 have been redeemed, nor are they counted as votes. If the holders of PREIT shares vote on such a transaction and holders of PREIT Partnership Units are entitled to vote thereon, each covered PREIT Partnership Unit will be entitled to one vote for each share issuable by PREIT upon the redemption of such PREIT Partnership Unit and the necessary vote to effect such action shall be the sum of an absolute majority of the outstanding PREIT Partnership Units entitled to vote on such matter and the applicable vote of the holders of PREIT outstanding shares, which such vote may be met by any combination of holders of PREIT Partnership Units or shares.

The Operating Partnership Agreement also provides that PREIT may not engage in a fundamental transaction (e.g., a merger) unless, by the terms of such transaction, the PREIT Partnership Units are treated in the same manner as that number of shares for which they are exchangeable by PREIT upon notice of redemption are treated. Holders of PREIT Partnership Units also have the right to vote on certain amendments to the Operating Partnership Agreement. In addition, pursuant to the form of addendum, so long as any 11% PREIT Partnership Units remain outstanding, PREIT Partnership will not (i) without the affirmative vote or consent of the holders of all of the 11% PREIT Partnership Units outstanding at the time, authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital shares ranking senior to the 11% PREIT Partnership Units with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (ii) without the affirmative vote or consent of the holders of at least two-thirds of the 11% PREIT Partnership Units outstanding at the time (such series voting separately as a class), amend, alter or repeal the provisions of the Operating Partnership Agreement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the 11% PREIT Partnership Units or the holders thereof; provided, however, that any increase in the amount of the authorized preferred units, or the creation or issuance of any other series of preferred units, or any increase in the amount of authorized shares of preferred units or any other series of preferred units, in each case ranking on a parity with or junior to the 11% PREIT Partnership Units with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of PREIT Partnership, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

**Redemption Rights.** Class A and Class B PREIT Partnership Units are redeemable by PREIT Partnership at the election of a limited partner holding such units, at such time, and for such consideration, as set forth in the Operating Partnership Agreement. In general, and subject to certain exceptions and limitations, holders of Class A PREIT Partnership Units (other than PREIT and PREIT subsidiaries) may, beginning one year following the respective issue dates, give one or more notices of redemption with respect to all or any part of the Class A PREIT Partnership Units so received and then held by such party. Class B PREIT Partnership Units are redeemable at the option of the holder at any time after issuance. The form of addendum provides that the 11% PREIT Partnership Units will be redeemable in the same amounts and during the same time periods as the PREIT 11% preferred shares. See " New 11% Preferred Shares Redemption" beginning on page 142.

If a notice of redemption is given, PREIT has the right to elect to acquire the PREIT Partnership Units tendered for redemption for its own account, either in exchange for the issuance of a like number of shares (subject to adjustments for stock splits, recapitalizations, and like events) or a cash payment equal to the average closing price of the shares over the ten consecutive trading days

immediately prior to receipt by PREIT, in its capacity as general partner of PREIT Partnership, of the notice of redemption. If PREIT declines to exercise such right, then on the tenth day following tender for redemption, PREIT Partnership will pay a cash amount equal to the number of Class A or Class B PREIT Partnership Units so tendered multiplied by such average closing price. PREIT Partnership is required to distribute to PREIT such additional amounts as may be required from time to time to pay the redemption price of the PREIT 11% preferred shares and such payment shall also be treated as payment of the redemption of the same number of 11% PREIT Partnership Units deemed to be redeemed.

**Ranking; Liquidation.** The 11% PREIT Partnership Units will, with respect to distribution rights and rights upon liquidation, rank senior to the other PREIT Partnership Units. Upon liquidation of PREIT Partnership, each 11% PREIT Partnership Unit will be entitled to receive a liquidation preference equal to \$50.00, plus any accrued and unpaid dividends on the PREIT 11% preferred shares prior to payment or distribution of any amounts to other PREIT Partnership Units.

#### **REIT Ownership Limitations and Transfer Restrictions Applicable to PREIT Shares of Beneficial Interest and 11% Preferred Shares**

Among the requirements for qualification as a REIT under the Internal Revenue Code are (1) not more than 50% in value of PREIT outstanding shares, including the shares of beneficial interest and the PREIT 11% preferred shares (after taking into account options to acquire shares), may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year, (2) the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year, and (3) certain percentages of PREIT's gross income must be from particular activities. In order to continue to qualify as a REIT under the Internal Revenue Code, the trustees have adopted, and PREIT shareholders have approved, provisions of the PREIT trust agreement that restrict the ownership and transfer of shares (the "Ownership Limit Provisions").

The Ownership Limit Provisions provide that no person may beneficially own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.9% of any separate class of PREIT shares. For this purpose, the shares of beneficial interest and the PREIT 11% preferred shares are treated as separate classes. The trustees may exempt a person from the Ownership Limit Provisions with a ruling from the Internal Revenue Service or an opinion of counsel or PREIT's tax accountants to the effect that such ownership will not jeopardize PREIT's status as a REIT.

Issuance or transfers of shares in violation of the Ownership Limit Provisions or which would cause PREIT to be beneficially owned by fewer than 100 persons are void ab initio and the intended transferee acquires no rights to the shares.

In the event of a purported transfer or other event that would, if effective, result in the ownership of shares in violation of the Ownership Limit Provisions, such transfer or other event with respect to that number of shares that would be owned by the transferee in excess of the Ownership Limit Provisions automatically are exchanged for an equal number of excess shares (the "Excess Shares"), authorized by the PREIT trust agreement, according to the rules set forth therein, to the extent necessary to insure that the purported transfer or other event does not result in the ownership of shares in violation of the Ownership Limit Provisions. Any purported transferee or other purported holder of Excess Shares is required to give written notice to PREIT of a purported transfer or other event that would result in the issuance of Excess Shares.

Excess Shares are not treasury shares but rather continue as issued and outstanding shares of beneficial interest. While outstanding, Excess Shares will be held in trust. The trustee of such trust shall be PREIT. The beneficiary of such trust shall be designated by the purported holder of the Excess Shares. Excess Shares are not entitled to any dividends or distributions. If, after the purported transfer

or other event resulting in an exchange of shares of beneficial interest for Excess Shares and prior to PREIT's discovery of such exchange, dividends or distributions are paid with respect to the shares that were exchanged for Excess Shares, then such dividends or distributions are to be repaid to PREIT upon demand. Excess Shares participate ratably (based on the total number of shares and Excess Shares) in any liquidation, dissolution or winding up of PREIT. Except as required by law, holders of Excess Shares are not entitled to vote such shares on any matter. While Excess Shares are held in trust, any interest in that trust may be transferred by the trustee only to a person whose ownership of shares will not violate the Ownership Limit Provisions, at which time the Excess Shares will be automatically exchanged for the same number of shares of the same type and class as the shares for which the Excess Shares were originally exchanged. Prior to any transfer of any interest in the Excess Shares held in trust, the purported transferee or other purported holder, as the case may be, must give advance notice to PREIT of the intended transfer and PREIT must waive in writing its purchase rights. The PREIT trust agreement contains provisions that are designed to insure that the purported transferee or other purported holder of Excess Shares does not receive in return for such a transfer an amount that reflects any appreciation in the shares for which Excess Shares were exchanged during the period that such Excess Shares were outstanding. Any amount received by a purported transferee or other purported holder in excess of the amount permitted to be received must be paid to PREIT. If the foregoing restrictions are determined to be invalid by any court of competent jurisdiction then the intended transferee or holder of any Excess Shares may be deemed, at PREIT's option, to have acted as an agent on PREIT's behalf in acquiring such Excess Shares and to hold such Excess Shares on PREIT's behalf.

The PREIT trust agreement further provides that Excess Shares shall be deemed to have been offered for sale to PREIT at the lesser of (1) the price paid for the shares by the purported transferee or, in the case of a gift, devise or other transaction, the market price for such shares at the time of such gift, devise or other transaction or (2) the market price for the shares on the date PREIT or its designee exercises its option to purchase the Excess Shares. PREIT may purchase such Excess Shares during a 90-day period, beginning on the date of the violative transfer if the original transferee-shareholder gives notice to PREIT of the transfer or, if no notice is given, the date the board of trustees determines that a violative transfer or other event resulting in an exchange of shares for the Excess Shares has occurred.

Each shareholder upon demand is required to disclose to PREIT in writing such information with respect to the direct, indirect and constructive ownership of shares as the board of trustees deems necessary to comply with the provisions of the PREIT trust agreement or the Internal Revenue Code applicable to a REIT or to comply with the requirements of any taxing authority or governmental agency. Certificates representing shares of any class or series issued after September 29, 1997 will bear a legend referring to the restrictions described above.

#### **Certain Provisions Affecting a Change in Control**

In addition to PREIT's shareholder rights plan, the following may deter a potential acquiror from acquiring PREIT:

***Ownership Limits and Restrictions on Transferability.*** In order to protect PREIT's status as a REIT, no more than 50% of the value of PREIT's outstanding shares (after taking into account options to acquire shares) may be owned, directly or constructively, by five or fewer individuals and the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To assist it in satisfying these tests, subject to some exceptions, PREIT's trust agreement prohibits any shareholder from owning more than 9.9% of PREIT's outstanding shares of beneficial interest (exclusive of preferred shares) or more than 9.9% of any class or series of preferred shares. The trust agreement also prohibits transfers of shares that would cause a shareholder to exceed the 9.9% limit or cause PREIT to be beneficially owned by

fewer than 100 persons. PREIT's board of trustees may exempt a person from the 9.9% ownership limit if they receive a ruling from the Internal Revenue Service or an opinion of counsel or tax accountants that exceeding the 9.9% ownership limit as to that person would not jeopardize PREIT's tax status as a REIT. Absent an exemption, this restriction may discourage a tender offer or other transaction or change in management or control that might involve a premium price for PREIT's shares or otherwise be in the best interests of PREIT's shareholders.

***Staggered Board.*** PREIT's board of trustees has three classes of trustees. The term of office of one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees may affect the ability of a shareholder to take control of PREIT, even if a change in control were in the best interests of PREIT's shareholders.

***Multiple Classes and Series of Shares of Beneficial Interest.*** PREIT's trust agreement permits its board of trustees to create and issue multiple classes and series of preferred shares and classes and series of preferred shares having preferences to the existing shares on any matter, including rights in liquidation or to dividends and option rights (including shareholder rights plans), and other securities having conversion or

option rights and may authorize the creation and issuance by PREIT's subsidiaries and affiliates of securities having conversion and option rights in respect of shares. PREIT's trust agreement further provides that the terms of such rights or other securities may provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or preferred shares could have the effect of delaying or preventing a change in control over PREIT, even if a change in control were in the shareholders' interest.

### COMPARISON OF SHAREHOLDER RIGHTS

*The following comparison of the rights of PREIT shareholders and Crown shareholders summarizes the material differences between those rights, but is not intended to list all of the differences. As a Pennsylvania business trust, PREIT is subject to the Pennsylvania business trust law. The Pennsylvania business trust law does not cover many of the governance issues addressed by the Pennsylvania Business Corporation Law, so the rights of PREIT shareholders are largely governed solely by the PREIT trust agreement and by-laws. As a Maryland REIT, Crown is subject to the Maryland REIT Law. The Maryland REIT Law covers many of the same matters covered by the Maryland General Corporation Law, however, there are some corporate governance matters that are addressed in the Maryland General Corporation Law that are not dealt with in the Maryland REIT Law. It is the general practice of Maryland REITs to provide for some of these matters in their declarations of trust or by-laws.*

*The following discussion should be read together with, and is qualified by reference to, the PREIT trust agreement, including the form of designating amendment for the 11.00% non-convertible, senior preferred shares to be issued in connection with the merger, the PREIT by-laws, the Crown declaration of trust, the Crown by-laws and applicable Pennsylvania and Maryland law. The trust agreement and by-laws of PREIT and the declaration of trust and by-laws of Crown are incorporated by reference in this proxy statement/prospectus, and will be sent to holders of PREIT common shares and Crown common shares upon request. See "Where You Can Find More Information" beginning on page 192. In this discussion comparing shareholder rights, PREIT's existing series of shares of beneficial interest will be referred to as PREIT common shares.*

#### Authorized Shares

*PREIT.* The authorized capital shares of PREIT consist of 100,000,000 common shares, \$1.00 par value per share, and 25,000,000 undesignated preferred shares. PREIT also has the authority to issue an unlimited number of "excess shares" as described below under "Ownership Limitations" beginning on page 165. At September 25, 2003, there were issued and outstanding 23,476,958 PREIT common shares. There are no PREIT preferred shares or excess shares outstanding.

Upon the consummation of the merger, PREIT will file a designating amendment to its trust agreement to establish a series of 11.00% non-convertible senior preferred shares (the "PREIT 11% preferred shares"). The number of shares designated as 11.00% non-convertible, senior preferred shares will be 2,475,000, the same as the number of Crown 11.00% non-convertible, senior preferred shares outstanding (the "Crown 11% preferred shares"). The PREIT 11% preferred shares issued in the merger will have the rights, preferences, privileges, voting power and terms and conditions of redemption described in "Description of PREIT Shares of Beneficial Interest New 11% Preferred Shares" beginning on page 140.

The terms of the PREIT 11% preferred shares will be identical in all material respects to the Crown 11% preferred shares.

The PREIT trust agreement provides that the trustees may issue without shareholder approval multiple classes and series of preferred shares, subject, upon issuance, to the rights of the holders of the PREIT 11% preferred shares, having preferences to the existing shares in any matter, including rights in liquidation or to dividends. The PREIT trustees may also issue without shareholder approval option rights (including shareholder rights plans) and other securities having conversion or option rights, and may authorize the creation and issuance by PREIT subsidiaries and affiliates of securities having conversion and option rights in respect of PREIT shares. Thus, the rights of holders of existing PREIT common shares are subject and junior to preferred rights as to dividends and in liquidation (and other matters) to the extent set forth in any subsequently authorized class or series of preferred shares.

*Crown.* The authorized capital shares of Crown consist of 250,000,000 shares of beneficial interest, \$0.01 par value per share, of which 120,000,000 are classified as Crown common shares, 5,000,000 are classified as Crown preferred shares and 125,000,000 are classified as

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

excess shares. At September 18, 2003, there were issued and outstanding 32,534,826 Crown common shares and 2,475,000 Crown 11% preferred shares. There are no Crown excess shares outstanding. Crown's "excess shares" are described below under "Ownership Limitations" beginning on page 165.

The Crown declaration of trust provides that the trustees may issue without shareholder approval multiple classes and series of preferred shares, subject to the rights of the holders of the Crown 11% preferred shares, having preferences to the existing shares in any matter, including rights in liquidation or to dividends. Thus, the rights of holders of existing Crown common shares are subject and junior to preferred rights as to dividends and in liquidation (and other matters) to the extent set forth in any subsequently authorized class or series of preferred shares.

### **Voting Rights**

*PREIT.* Each holder of PREIT common shares is entitled to one vote per share and to the same and identical voting rights as other holders of PREIT common shares. Except as provided in the form of designating amendment for the PREIT 11% preferred shares or required by law, holders of PREIT 11% preferred shares will not have voting rights. For a description of the voting rights of the PREIT 11% preferred shares, see "Description of PREIT Shares of Beneficial Interest New 11% Preferred Shares Voting Rights" beginning on page 143.

Unless a greater or different vote is otherwise required by PREIT's board of trustees as to a particular matter, a majority of PREIT common shares voting on a matter at a meeting at which at least a majority of the outstanding common shares entitled to vote on such matter are present in person or by proxy is required to approve matters before the common shareholders, except with respect to the election of trustees, who are elected based on the candidates receiving the highest number of votes at a meeting. Cumulative voting is not permitted. The PREIT trust agreement also permits holders of securities of PREIT affiliates to vote with PREIT shareholders on certain matters. The PREIT trustees have granted certain holders of currently outstanding PREIT Partnership Units a right to vote with respect to fundamental changes in PREIT (i.e., mergers, consolidations and sales of substantially all of PREIT's assets). See "Description of PREIT Shares of Beneficial Interest Summary of the Operating Partnership Agreement and PREIT Partnership Units" beginning on page 146.

*Crown.* Each holder of Crown common shares is entitled to one vote per share and to the same and identical voting rights as other holders of Crown common shares. Holders of Crown common shares do not have cumulative voting rights. Except as provided in the articles supplementary establishing the Crown 11% preferred shares or required by law, holders of Crown 11% preferred shares do not have voting rights.

A majority of Crown common shares voting on a matter at a meeting at which at least a majority of the outstanding shares entitled to vote on such matter are present in person or by proxy is required to approve matters before the shareholders, except (1) with respect to the election of trustees, who are elected based on the candidates receiving the highest number of votes at a meeting, (2) with respect to the removal of trustees, which requires the affirmative vote of two-thirds of the shares entitled to vote thereon and (3) with respect to reorganizations, mergers, consolidations and the sale of all or substantially all of Crown's assets, which require the affirmative vote of not less than a majority of the Crown common shares then outstanding and entitled to vote thereon. The Crown declaration of trust provides that, subject to the provisions of any class or series of the shares of beneficial interest of Crown then outstanding and to mandatory provisions of law, the shareholders of Crown shall be entitled to vote only on the following matters: (1) election or removal of trustees of Crown; (2) amendment of the Crown declaration of trust; (3) termination of the existence of Crown;

152

---

(4) reorganization of Crown; (5) merger, consolidation or share exchange of Crown or the sale or disposition of substantially all of Crown's assets; and (6) termination of Crown's status as a REIT for federal tax purposes. Except with respect to the foregoing matters, no action taken by the shareholders of Crown at any meeting shall in any way bind the Crown trustees.

### **Classification of the Board**

*PREIT and Crown.* The PREIT trust agreement and the Crown declaration of trust divide their respective boards into three classes, with classes being elected to three-year terms on a rotating basis.

### **Number of Trustees; Removal of Trustees; Vacancies**

*PREIT.* The PREIT trust agreement provides for a minimum of five and a maximum of 15 trustees, with the number of trustees within this range established by resolution of the board of trustees as provided in the PREIT by-laws. The current size of PREIT's board of trustees is nine, but will increase to eleven upon completion of the merger.

## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

If dividends payable on the PREIT 11% preferred shares have been in arrears for six or more quarters (regardless of whether such periods are consecutive), the number of trustees then constituting the board of trustees will be increased by two, and the holders of the PREIT 11% preferred shares, voting separately as a class, will have the right to elect two additional trustees at any annual meeting of shareholders or a properly called meeting of the holders of the PREIT 11% preferred shares. Each such trustee will be elected to serve until the earlier of the election and qualification of such trustee's successor or the payment of all dividends on the PREIT 11% preferred shares that are in arrears. If any trustee so elected shall fail to serve a full term, the holders of the PREIT 11% preferred shares may elect a successor to hold office for the unexpired term at a properly called meeting of the holders of the PREIT 11% preferred shares.

Under the PREIT trust agreement, a trustee may be removed at any time (1) by a vote of at least two-thirds of the trustees, for any cause deemed by them to be sufficient, or (2) for "Cause" by the holders of a majority of the shares then outstanding and entitled to vote at the annual election of trustees. Under the PREIT trust agreement, "Cause" exists only if the trustee whose removal is proposed has been convicted of a felony and such conviction is no longer subject to appeal or if such trustee has been adjudged by a court of competent jurisdiction to be liable for negligence or misconduct in the performance of his or her duty to PREIT in a matter of substantial importance to PREIT and such adjudication is no longer subject to appeal. No trustee may be removed at any meeting of trustees or shareholders unless written notice of the meeting stating the purpose of the meeting has been given to those entitled to vote at least seven days prior to such meeting.

Under the PREIT trust agreement, subject to the rights of the holders of the PREIT 11% preferred shares, the trustees may fill vacancies that occur as a result of an increase in the number of trustees or by reason of the death, resignation or incapacity of any of the trustees. A trustee chosen by the other trustees to fill a vacancy that has occurred as a result of an increase in the number of trustees will serve until the next annual or special meeting of shareholders and until his or her successor is elected and qualified. A trustee chosen by other trustees to fill a vacancy created by reason of the death, resignation or incapacity of a trustee will hold office for the full remaining term of the former trustee and until his or her successor is elected and qualified. A vacancy created by the removal of a trustee may be filled only by the shareholders at the next annual meeting or a special meeting called for that purpose unless there are fewer than five trustees, in which case the remaining trustees are required to elect a sufficient number of persons so that at least five will be serving.

*Crown.* Crown's declaration of trust provides for a minimum of three and a maximum of 15 trustees, with the number of trustees within this range established by the unanimous vote of the board of trustees. The current size of Crown's board of trustees is seven. The Crown declaration of trust

153

---

requires that at least a majority of the members of the Crown board of trustees be "Independent." Under the Crown declaration of trust, a trustee is considered "Independent" if he or she is not an affiliate of Crown or Crown Investments Trust and is not an employee of Crown, Crown Investments Trust or any of their affiliates.

If dividends payable on the Crown 11% preferred shares have been in arrears for six or more quarters (regardless of whether such periods are consecutive), the number of trustees then constituting the board of trustees will be increased by two, and the holders of the Crown 11% preferred shares, voting separately as a class, will have the right to elect two additional trustees at any annual meeting of shareholders or a properly called meeting of the holders of the Crown 11% preferred shares. Each such trustee will be elected to serve until the earlier of the election and qualification of such trustee's successor or the payment of all dividends on the Crown 11% preferred shares that are in arrears. If any trustee so elected shall fail to serve a full term, the holders of the Crown 11% preferred shares may elect a successor to hold office for the unexpired term at a properly called meeting of the holders of the Crown 11% preferred shares.

Crown's declaration of trust provides that trustees may be removed from office at any time, but only for cause and then only at a meeting of the shareholders called for that purpose by the affirmative vote of at least two-thirds of the outstanding shares. Any trustee elected by the holders of the Crown 11% preferred shares may only be removed by the affirmative vote of two-thirds of the Crown 11% preferred shares then outstanding and entitled to vote in the election of trustees.

Under the Crown by-laws, subject to any rights of the holders of the Crown 11% preferred shares, any vacancy (including a vacancy created by an increase in the number of trustees) will be filled, at any regular meeting or at any special meeting of the trustees called for that purpose, by the affirmative vote of a majority of the remaining trustees, even if less than a quorum are present. A trustee chosen by other trustees to fill a vacancy will hold office for the full remaining term of the former trustee and until his or her successor is elected and qualified.

### **Limitation of Trustee and Officer Liability**

*PREIT.* The PREIT trust agreement provides that:

no trustee shall be personally liable to any person or entity for any of PREIT's acts, omissions or obligations;

no trustee shall be personally liable for monetary damages for any action, or any failure to act, except to the extent a Pennsylvania business corporation's director would remain liable under the provisions of Section 1713 of the Pennsylvania Business Corporation Law; and

no officer who performs his duties in good faith, in a manner reasonably believed to be in PREIT's best interests and with the care, skill and diligence a person of ordinary prudence would use will be liable by reason of having been an officer.

Section 1713 of the Pennsylvania Business Corporation Law provides that a director of a Pennsylvania corporation shall not be personally liable for monetary damages for any action taken unless the director has breached or failed to perform the duties of his office, and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. However, the director shall be personally liable for the responsibility or liability of a director pursuant to any criminal statute, or the payment of taxes pursuant to Federal, State or local law.

The trustees may deal with PREIT by rendering services for reasonable compensation, buying property from or selling property to PREIT or otherwise. No trustee shall have any liability for a transaction if it is approved by a majority of the disinterested trustees, except for his or her bad faith or gross negligence, and, if he or she discloses the material facts of the transaction before the vote, any

154

---

such trustee may be counted in determining the existence of a quorum at any meeting of the board of trustees that authorizes the transaction and may vote at the meeting to authorize the transaction.

PREIT Partnership's limited partnership agreement provides that PREIT, and its officers and trustees acting on its behalf as general partner of PREIT Partnership, are not liable to PREIT Partnership or its other partners for losses sustained, liabilities incurred or benefits not derived as a result of errors in judgment or mistakes of fact or law or of any act or omission if such person's conduct did not (1) constitute willful misconduct or a knowing violation of the law, or (2) result in an improper personal benefit for such person in violation or breach of any express provision of PREIT Partnership's limited partnership agreement.

*Crown.* Pursuant to Maryland law and the Crown declaration of trust, the liability of trustees and officers of Crown to Crown or to any shareholder of Crown for monetary damages has been eliminated except (1) to the extent of any actual receipt of an improper personal benefit in money, property or services and (2) for action or failure to act as the result of active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Crown declaration of trust prohibits Crown from entering into any contract or transaction with its trustees or officers or their affiliates without the approval of the affirmative vote of a majority of Crown's independent trustees.

Crown Partnership's limited partnership agreement provides that Crown, and its officers and trustees acting on its behalf as general partner of Crown Partnership, are not liable to Crown Partnership or its other partners for any acts or omissions performed or omitted to be performed by them within the scope of the authority conferred upon Crown under the partnership agreement or under the Delaware Revised Uniform Limited Partnership Act, provided that the conduct or omission was in good faith and in the belief that it was in the best interest of Crown Partnership and the person is not guilty of fraud, misconduct or gross negligence.

#### **Indemnification**

*PREIT.* Pennsylvania law permits and the PREIT trust agreement and by-laws provide that every trustee and officer is entitled as of right to be indemnified by PREIT against reasonable expenses (including attorney's fees) and any liability, loss, judgment, excise tax, fine, penalty or settlement they pay or incur in connection with an actual (whether pending or completed) or threatened claim, action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise, whether brought by or in PREIT's right or otherwise, in which he or she may be involved, as a party or otherwise, by reason of being or having been a trustee or officer or because the person is or was serving in any capacity at PREIT's request as a trustee, director, officer, employee, agent, partner, fiduciary or other representative of another REIT, corporation, partnership, joint venture, trust, employee benefit plan or other entity unless the act or failure to act giving rise to the claim for indemnification is determined by a court of competent jurisdiction to have constituted willful misconduct or recklessness. No right to indemnification exists with respect to an action brought by a trustee or officer against PREIT.



## Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-4/A

Under Pennsylvania law and PREIT's trust agreement and by-laws, PREIT may pay, before final disposition, the expenses, including attorney's fees, incurred by a trustee or officer in defending a proceeding upon receipt of an undertaking by or on behalf of the applicable trustee or officer to repay all amounts advanced if it is determined ultimately that the trustee or officer is not entitled to indemnification by PREIT.

Under Pennsylvania law, the indemnification and advancement of expenses provided by statute are not exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of shareholders, vote of trustees or otherwise. In addition to the indemnification provisions arising under Pennsylvania law and the PREIT trust agreement and by-laws, PREIT has entered into agreements with some of its officers that provide for indemnification. The agreements require, among other things, that PREIT indemnify those officers to

155

---

the fullest extent permitted by law, and advance to the officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted.

The Delaware Revised Uniform Limited Partnership Act allows a Delaware limited partnership to provide unlimited indemnification to any of its partners or any other entity. PREIT Partnership's limited partnership agreement provides for indemnification of PREIT and its officers and trustees from and against any and all losses, claims, damages, liabilities, (including joint and/or several liabilities), expenses (including, without limitation, attorney's fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, that relate to PREIT Partnership in which he, she or it may be involved, or is threatened to be involved, as a party or otherwise; provided, however, that PREIT Partnership shall not provide indemnification for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which PREIT or a PREIT officer or trustee received an improper personal benefit in violation or breach of any express provision of PREIT Partnership's limited partnership agreement, (3) any violation of PREIT Partnership's limited partnership agreement or (4) any liability that he, she or it may have to PREIT Partnership under certain contribution agreements executed in connection with PREIT's acquisition of The Rubin Organization. PREIT is authorized and empowered, on behalf of PREIT Partnership, to enter into one or more additional indemnity agreements consistent with the foregoing in favor of PREIT and its officers and trustees.

PREIT Partnership's limited partnership agreement also provides that, to the fullest extent permitted by law, expenses incurred by PREIT or any PREIT trustee or officer who is a party to a proceeding or otherwise subject to or the focus of or is involved in any action subject to indemnification pursuant to PREIT Partnership's limited partnership agreement, shall be paid or reimbursed by PREIT Partnership as incurred by PREIT or any PREIT trustee or officer in advance of the final disposition of the action upon receipt by PREIT Partnership of a written undertaking by or on behalf of PREIT or the applicable PREIT trustee or officer to repay the amount if it shall be determined ultimately that the standard of conduct was not met.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to trustees and officers of PREIT, PREIT has been advised that, although the validity and scope of such indemnification has not been tested in court, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In addition, indemnification may be limited by state securities laws.

*Crown.* Maryland law permits, and Crown's declaration of trust and by-laws require, indemnification of any trustee or officer (1) against reasonable expenses incurred by him or her in the successful defense (on the merits or otherwise) of any proceeding to which he or she is made a party by reason of such status or (2) against any claim or liability to which he or she may become subject by reason of such status unless it is established that (a) the act or omission giving rise to the claim was committed in bad faith or was the result of active and deliberate dishonesty, (b) he or she actually received an improper personal benefit in money, property or services or (c) in the case of a criminal proceeding, he or she had reasonable cause to believe that his or her act or omission was unlawful.

Under Maryland law, indemnity may be provided against judgments, penalties, fines, settlements and reasonable expenses (including attorneys' fees) actually incurred by the person in connection with the proceeding. The indemnification may be provided, however, only if authorized for a specific proceeding after a determination has been made that indemnification is permissible in the circumstances because the person met the applicable standard of conduct. This determination is required to be made:

by the board of trustees by a majority vote of a quorum consisting of trustees not, at the time, parties to the proceeding;

156

---

if a quorum cannot be obtained, then by a majority vote of a committee of the board designated by a majority vote of the full board and consisting solely of two or more trustees not, at the time, parties to the proceeding;

by special legal counsel; or

by the shareholders.

Notwithstanding any of the foregoing, if the proceeding is one by or in the right of the REIT, indemnification may not be provided as to any proceeding in which the person is found liable to the REIT.

A Maryland REIT may pay, before final disposition, the expenses, including attorney's fees, incurred by a trustee, officer, employee or agent in defending a proceeding. Under Maryland law, expenses may be advanced to a trustee or officer when the trustee or officer gives an undertaking to the trust to repay the amounts advanced if it is ultimately determined that he or she is not entitled to indemnification. Crown is required by its by-laws to pay or reimburse, in advance of a final disposition, reasonable expenses of a trustee or officer made a party to a proceeding by reason of his or her status as such upon receipt of (1) a written affirmation by the trustee or officer of his or her good faith belief that he or she has met the applicable standard of conduct for indemnification under the by-laws and (2) a written undertaking from the trustee or officer to repay such expenses if it shall be determined ultimately that the applicable standard of conduct was not met. Maryland law does not require that the undertaking be secured and the undertaking may be accepted without reference to the financial ability of the trustee or officer to repay the advance. A Maryland REIT is required to indemnify any trustee who has been successful, on the merits or otherwise, in defense of a proceeding for reasonable expenses. The determination as to reasonableness of expenses is required to be made in the same manner as the determination that indemnification is permissible, as described above.

Under Maryland law, the indemnification and advancement of expenses provided by statute are not exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any declaration of trust, by-law, agreement, resolutions of shareholders or trustees or otherwise. In addition to the indemnification provisions arising under Maryland law and the Crown declaration of trust and by-laws, Crown has entered into indemnification agreements with certain of its officers and trustees. The indemnification agreements require, among other things, that Crown indemnify these officers and trustees to the fullest extent permitted by law, and advance to these officers and trustees all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Crown must also indemnify and advance all expenses incurred by these officers and trustees seeking to enforce their rights under the indemnification agreements, and cover each such Crown officer and trustee under Crown's trustees and officers' liability insurance policies to the extent such policies are maintained for any other Crown officer or trustee.

Crown Partnership's limited partnership agreement also provides for indemnification of Crown and its officers and trustees for any acts or omissions performed by them in the scope of the authority conferred by Crown, provided that (1) such person's conduct or omission to act was taken in good faith in the belief that such conduct was in the best interest of Crown Partnership and (2) such person is not guilty of fraud, misconduct or gross negligence. Crown Partnership's limited partnership agreement provides that such person will be indemnified for any claim, including but not limited to, reasonable attorney's fees and expenses incurred by them by reason of any act performed in accordance with the standards described above. The partnership agreement also provides that such person shall be entitled to receive advances to cover the costs of defending any proceeding, provided however that such advances must be repaid if such person is found by a court not to be entitled to such indemnification. In addition, the partnership agreement provides that the indemnification provided by the agreement will be in addition to any and all rights the person has in law or equity.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to trustees and officers of Crown, Crown has been advised that, although the validity and scope of such indemnification has not been tested in court, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In addition, indemnification may be limited by state securities laws.

#### **Duties of Trustees**

*PREIT.* Under Pennsylvania law applicable to PREIT, a trustee must perform his or her duties in good faith, in a manner he or she reasonably believes to be in the best interests of the trust with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, a trustee will be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the

following:

one or more officers or employees of the trust whom the trustee reasonably believes to be reliable and competent in the matters presented;

counsel, public accountants or other persons as to matters that the trustee reasonably believes to be within the professional or expert competence of such person; or

a committee of the board on which he or she does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the trustee reasonably believes to merit confidence.

Notwithstanding the foregoing, a trustee will not be considered to be acting in good faith if he or she has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

Absent breach of fiduciary duty, lack of good faith or self-dealing, any act of the board, a committee of the board or an individual trustee will be presumed to be in the best interests of the trust. Under Pennsylvania law, there is no greater obligation to justify, or higher burden of proof with respect to, any act of the board, a committee of the board or a trustee relating to or affecting an acquisition or a potential or proposed acquisition of control of a business trust than is applied to any other act of the board or trustee. Furthermore, any act of the board, a committee of the board or an individual trustee in a takeover context to which a majority of the disinterested trustees has assented is presumed to satisfy the required standard of care unless it is proven by clear and convincing evidence that the disinterested trustees did not assent in good faith after reasonable investigation. See " Mergers, Consolidations and Sales of Assets" and " Other Constituencies" beginning on pages 161 and 164, respectively, for additional information.

Pennsylvania law also provides that the duty of a trustee is only enforceable by the trust or in the right of the trust. A shareholder suit to enforce the duty of a trustee, therefore, can only be brought derivatively.

*Crown.* Although Maryland law applicable to Crown does not explicitly provide a standard of care for the trustees of a Maryland REIT, the Maryland REIT law provides that an act of a trustee is presumed to have been performed in good faith, in a manner the trustee reasonably believed to be in the best interests of the REIT and with the care that an ordinarily prudent person in a like position would have used under similar circumstances, which is the standard of care applicable by statute to the directors of Maryland corporations and the trustees of Maryland business trusts. In addition, an act of a trustee relating to or affecting an acquisition or a potential acquisition of control is not subject under Maryland law to a higher duty or greater scrutiny than is applied to any other act of a trustee. See " Mergers, Consolidations and Sales of Assets" and " Other Constituencies" beginning on pages 161 and 164, respectively, for more information.

158

---

Maryland law also provides that the duty of a trustee is only enforceable by the trust or in the right of the trust. A shareholder suit to enforce the duty of a trustee, therefore, can only be brought derivatively.

### **Call of Special Meetings of Shareholders**

*PREIT.* Subject to the rights of the holders of the PREIT 11% preferred shares to elect additional trustees under specified circumstances, the PREIT trust agreement and by-laws provide that special meetings of shareholders may be called by the chairman, the PREIT trustees or by the holders of shares entitled to cast at least 40% of all the votes entitled to be cast at the special meeting of shareholders.

*Crown.* Subject to the rights of the holders of the Crown 11% preferred shares to elect additional trustees under specified circumstances, Crown's by-laws provide that special meetings of shareholders may be called only by the chairman of the board or by resolution adopted by a majority of the trustees that Crown would have if there were no vacancies on its board.

### **Advance Notice Provisions for Shareholder Nominations and Shareholder Business Proposals**

*PREIT.* The PREIT trust agreement provides that nominations for election to the office of trustee at any annual or special meeting of shareholders shall be made by PREIT's trustees, or by petition in writing delivered to its secretary not fewer than 35 days before the meeting signed by the holders of at least two percent of the shares outstanding on the date of the petition. Nominations not made in accordance with these procedures will not be considered unless the number of persons nominated is fewer than the number of persons to be elected to the office of

trustee at the meeting. In this latter event, nominations for the trustee positions that would not otherwise be filled may be made at the meeting by any person entitled to vote in the election of trustees. PREIT has not established specific procedures that shareholders must follow to propose other items of business.

*Crown.* The Crown by-laws provide that (1) only persons who are nominated by, or at the direction of, the board of trustees, or by a shareholder who has given timely written notice containing specified information to the secretary of Crown prior to the meeting at which trustees are to be elected, will be eligible for election as trustees of Crown; (2) only such business may be conducted as has been brought before an annual meeting by, or at the direction of, the board of trustees or by a shareholder who has given timely written notice to the secretary of Crown of such shareholder's intention to bring such business before annual meeting and (3) only such business may be conducted at a special meeting as has been brought before the meeting pursuant to the notice of meeting. In general, for notice of shareholder nominations or business to be made at an annual meeting to be timely, such notice must be received by Crown not less than 60 days nor more than 90 days prior to the first anniversary of the previous year's annual meeting. For notice of shareholder nominations to be made at a special meeting called for the purpose of electing one or more trustees to be timely, such notice must be received by Crown not earlier than 90 days prior to such special meeting and not later than the later of the 60<sup>th</sup> day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the trustees to be elected at such meeting.

#### **Amendment of the PREIT Trust Agreement and Crown Declaration of Trust**

*PREIT.* Amendments to the PREIT trust agreement can be made with the approval of two-thirds, but not fewer than four, of the trustees. However: (1) no amendment may be effected to increase the liability of shareholders; (2) no amendment may be effected requiring additional contributions from or assessments against shareholders; (3) no amendment of the provisions of the trust agreement (a) prohibiting certain amendments or (b) regarding the requisite vote to terminate PREIT's existence,

merge with another entity or sell, assign or otherwise transfer all or substantially all of PREIT's assets may be effected without the affirmative vote of shareholders that would be required to effect the amendment, termination or transaction that is the subject of such amendment; and (4) no amendment (a) increasing PREIT's authorized capitalization, or (b) having the purpose or reasonably foreseeable effect of impeding or preventing a "control transaction," may be effected unless approved by a majority of the votes cast by all shareholders entitled to vote thereon (other than the holders of any class or series of preferred shares, if any, entitled to vote thereon exclusively as a class) and a majority of the votes cast by the holders of any class or series of preferred shares, if any, entitled to vote thereon separately as a class. As used in the PREIT trust agreement, the term "control transaction" means the acquisition by any person or group of persons having at least 20% of the votes that all shareholders are entitled to cast in the election of trustees.

Under the form of designating amendment for the PREIT 11% preferred shares, so long as any PREIT 11% preferred shares remain outstanding, PREIT cannot (1) without the affirmative vote or consent of the holders of all of the PREIT 11% preferred shares outstanding at the time (such series voting separately as a class), (a) authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital shares ranking senior to the PREIT 11% preferred shares with respect to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or (b) create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (2) without the affirmative vote or consent of the holders of two-thirds of the PREIT 11% preferred shares (such series voting separately as a class), amend, alter or repeal the provisions of the PREIT trust agreement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the PREIT 11% preferred shares or the holders thereof; provided, however, that any increase in the amount of the authorized preferred shares, or the creation or issuance of any other series of preferred shares, or any increase in the amount of authorized shares of preferred shares or any other series of preferred shares, in each case ranking on a parity with or junior to the PREIT 11% preferred shares with respect to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of PREIT, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.